State Universities Retirement System
of the State of Illinois

(A Component Unit of the State of Illinois)

Auditor’s Report and Financial Audit

For the Year Ended June 30, 2021

Performed as Special Assistant Auditors for
the Auditor General, State of Illinois

State Universities Retirement System of the State of Illinois

Financial Audit

For the Year Ended June 30, 2021

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State Universities Retirement System
of the State of Illinois
Financial Audit
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System Officials

Acting Executive Director (2/20/21 – 12/8/21)	Ms. Suzanne Mayer
Executive Director (12/9/21 – Present)	Ms. Suzanne Mayer
Executive Director (7/1/20 – 2/19/21)	Mr. Martin Noven
Chief Financial Officer	Ms. Tara Myers
Chief Investment Officer	Mr. Doug Wesley
General Counsel	Ms. Bianca Green
Director of Internal Audit	Ms. Jacqueline Hohn

Board Officers

Chairperson	Mr. John Atkinson
Vice Chairperson	Mr. Colin Van Meter
Treasurer	Mr. John Lyons

Board Members

Board of Trustees	Mr. Andriy Bodnaruk
	Mr. Richard Figueroa
	Ms. Jamie-Clare Flaherty
	Mr. J. Fred Giertz
	Mr. Scott Hendrie
	Mr. Steven Rock
	Mr. Mitchell Vogel
	Mr. Scott Weisbenner

Office Location

1901 Fox Drive
Champaign, Illinois 61820

State Universities Retirement System
of the State of Illinois
Financial Statement Report Summary
For the Year Ended June 30, 2021

Summary

The audit of the accompanying financial statements of the State Universities Retirement System of the State of Illinois ("System") was performed by **BKD, LLP**.

Based on their audit, the auditors expressed an unmodified opinion on the System's financial statements.

BKD
CPAs & Advisors

225 N. Water Street, Suite 400 | Decatur, IL 62523-2326
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Independent Auditor's Report

The Honorable Frank J. Mautino
Auditor General
State of Illinois
and
Board of Trustees
State Universities Retirement System of the State of Illinois

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying Statement of Fiduciary Net Position of the State Universities Retirement System of the State of Illinois (System), a component unit of the State of Illinois, as of June 30, 2021, and the related Statement of Changes in Fiduciary Net Position for the year then ended, and the related notes to the financial statements, which collectively comprise the System's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the System's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

The Honorable Frank J. Mautino
and
Board of Trustees
State Universities Retirement System of the State of Illinois

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the System as of June 30, 2021, and the changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the System's 2020 financial statements, and we expressed an unmodified audit opinion in our report dated December 11, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, after restatement for the adoption of Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities,* is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis of Matters

The actuarially determined pension liability, calculated as required by GASB Statement No. 67, is dependent on several assumptions including the assumption that future required contributions from all sources are made based on statutory requirements in existence as of the date of this report. These assumptions are discussed in Note V of the financial statements. Our opinion is not modified with respect to this matter.

As discussed in Note II to the financial statement, in 2021 the System adopted GASB Statement No. 84, *Fiduciary Activities*. The System reported a restatement for the change in accounting principle as of July 1, 2019 as well as within the 2020 comparative information. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of changes in the employer net pension liability and related ratios, the schedule of net pension liability, the schedule of investment returns, the schedule of contributions from employers and other contributing entities, and notes to the required supplementary information as listed in the table of contents be presented to supplement the financial statements. Such information, although not part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic

The Honorable Frank J. Mautino
and
Board of Trustees
State Universities Retirement System of the State of Illinois

financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit for the year ended June 30, 2021, was conducted for the purpose of forming an opinion on the System's basic financial statements.

The other supplementary financial information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The other supplementary financial information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary financial information as listed in the table of contents is fairly stated in all material respects, in relation to the basic financial statements as a whole.

We have also previously audited, in accordance with accounting principles generally accepted in the United State of America, the System's financial statements as of and for the year ended June 30, 2020, (not presented herein), and have issued our report thereon dated December 11, 2020, which contained an unmodified opinion on those financial statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2021 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

SIGNED ORIGINAL ON FILE

Decatur, Illinois
December 13, 2021

Management's Discussion and Analysis

This section presents management's discussion and analysis of the financial statements of the State Universities Retirement System (SURS or System) and the major factors affecting the operations and investment performance of the System during the year ended June 30, 2021, with comparative reporting entity totals for the year ended June 30, 2020. Please read this section in conjunction with the Letter of Transmittal included in the Introductory Section, the financial statements, and other information that is presented in the Financial Section of the Annual Comprehensive Financial Report.

Financial Highlights

- Contributions from the State and employers were $2,063.1 million, an increase of $146.0 million, or 7.6% from fiscal year 2020.
- The System's benefit payments were $2,782.8 million, an increase of $104.8 million, or 3.9% for fiscal year 2021.
- The System's return on investment, net of investment management fees, was 23.8% for fiscal year 2021.
- The System's fiduciary net position at the end of fiscal year 2021 was $23.9 billion, an increase of $4.2 billion, or 21.2%.

Overview of Financial Statements and Accompanying Information
The Financial Section has four components: (1) Financial Statements, (2) Notes to the Financial Statements, (3) Required Supplementary Information, and (4) Other Supplementary Information.

- The financial statements presented in this report are the Statement of Fiduciary Net Position as of June 30, 2021, and the Statement of Changes in Fiduciary Net Position for the Year Ended June 30, 2021. These statements present separate totals for the System's three fiduciary fund types.
    - The Statement of Fiduciary Net Position details the net position (assets less liabilities) available for the payment of benefits and other fiduciary activities of the System.
    - The Statement of Changes in Fiduciary Net Position presents the additions to and deductions from fiduciary net position during the fiscal year. Over time the increase or decrease in fiduciary net position is a useful indicator of the health of SURS financial position.
- The Notes to the Financial Statements are an integral part of the financial statements and provide facts and detailed information to assist the reader in understanding the statements. Disclosures include the description of the plans, summary of significant accounting policies, and detailed presentations of major assets and liabilities.
- Required Supplementary Information presents schedules related to employer net pension liability, employer contributions, and investment returns.
- Other Supplementary Information consists of supporting schedules of administrative expenses, investment expenses, and fees paid to consultants.

As of July 1, 2020 the System adopted GASB Statement No. 84, *Fiduciary Activities*, which resulted in a restatement of 2020 comparative totals. See additional information related to the change in accounting principles in Note II B.

General Market Risk
SURS is exposed to general market risk. This general market risk is reflected in asset valuations fluctuating with market volatility. Any impact from market volatility on SURS investment portfolios depends in large measure on how deep the market downturn is, how long it lasts, and how it fits within fiscal year reporting periods. The resulting market risk and associated realized and unrealized gains and losses could significantly impact SURS financial condition.

Financial Analysis of the System
The System serves 216,643 members in its defined benefit plan, 24,832 members in its Retirement Savings Plan, and has 287 members that participate in the deferred compensation plan. The funds needed to finance the benefits provided by SURS are accumulated through the collection of member and employer contributions and through income on investments. The fiduciary net position of the System increased from $19.7 billion as of June 30, 2020, to $23.9 billion as of June 30, 2021. This $4.2 billion change was almost entirely due to an increase in the fair value of the System's investments.

Management's Discussion and Analysis

Fiduciary Net Position

The summary of fiduciary net position for the System is presented below:

Condensed Statement of Fiduciary Net Position

REPORTING ENTITY TOTAL ($ in millions)	2021	2020	Change	
			Amount	%
Cash and short-term investments	$ 1,723.8	$ 1,266.8	$ 457.0	36.1%
Receivables and prepaid expenses	81.1	188.9	(107.8)	(57.1)
Pending investment sales	78.7	1,952.1	(1,873.4)	(96.0)
Investments and securities lending collateral	24,355.7	19,766.9	4,588.8	23.2
Capital assets, net	11.1	10.4	0.7	6.7
Total assets	**26,250.4**	**23,185.1**	**3,065.3**	**13.2**
Payable to brokers-unsettled trades	128.0	2,013.9	(1,885.9)	(93.6)
Securities lending collateral	2,142.7	1,381.5	761.2	55.1
Other liabilities	50.0	40.9	9.1	22.2
Total liabilities	**2,320.7**	**3,436.3**	**(1,115.6)**	**(32.5)**
TOTAL FIDUCIARY NET POSITION	**$ 23,929.7**	**$ 19,748.8**	**$ 4,180.9**	**21.2%**

The investment allocation strategy for the reporting entity as of June 30, 2021, and 2020, is as follows:

Investment Allocation Strategy

	2021	2020
Traditional Growth		
Global Public Equity	41.0%	44.0%
Stabilized Growth		
Credit Fixed Income	14.0	14.0
Core Real Assets	5.0	5.0
Options Strategies	6.0	6.0
Non-Traditional Growth		
Private Equity	7.5	8.0
Non-Core Real Assets	2.5	3.0
Inflation Sensitive		
U.S. TIPS	6.0	6.0
Principal Protection		
Core Fixed Income	8.0	8.0
Crisis Risk Offset		
Systematic Trend Following	3.5	2.1
Alternative Risk Premia	3.0	1.8
Long Duration	3.5	2.1
TOTAL	**100.0%**	**100.0%**

Management's Discussion and Analysis

Proper implementation of the investment policy requires that a periodic adjustment, or rebalancing of assets, be made to ensure conformance with policy target levels. Such rebalancing is necessary to reflect sizable cash flows and performance imbalances among investment managers who are hired to manage assets with a specified strategy. SURS rebalancing policy calls for rebalancing, as soon as practical, if a strategy exceeds or falls below its target allocation by three percentage points. Ongoing rebalancing of the investment portfolio occurred as needed during the year with the assistance of the System's cash flows.

Changes in Fiduciary Net Position

The summary of changes in fiduciary net position for the System is presented below:

Condensed Statement of Changes in Fiduciary Net Position

REPORTING ENTITY ($ IN MILLIONS)	2021	2020	Change	
			Amount	%
Employer contributions	$ 67.3	$ 62.4	$ 4.9	7.9%
Non-employer contributing entity contributions	1,995.8	1,854.7	141.1	7.6
Member contributions	387.0	375.4	11.6	3.1
Net investment income	4,793.2	545.5	4,247.7	778.7
Total additions	**7,243.3**	**2,838.0**	**4,405.3**	**155.2**
Benefits	2,782.8	2,678.0	104.8	3.9
Refunds	79.1	69.0	10.1	14.6
Contributions sent to third-party administrator	178.5	170.3	8.2	4.8
Administrative expense	22.0	19.2	2.8	14.6
Total deductions	**3,062.4**	**2,936.5**	**125.9**	**4.3**
NET INCREASE (DECREASE) IN FIDUCIARY NET POSITION	**$ 4,180.9**	**$ (98.5)**	**$ 4,279.4**	**4,344.6%**

Additions

Additions to fiduciary net position come from employer and member contributions and returns on investment funds. For fiscal year 2021, non-employer contributing entity contributions increased by $141.1 million due to higher contributions from the State of Illinois. Employer contributions increased by $4.9 million, or 7.9%. Member contributions increased by $11.6 million, or 3.1%. Net investment income for fiscal year 2021 was $4,793.2 million for the System, representing a $4,247.7 million increase from the prior year. The System's investment rate of return was 23.8% (net of all investment management fees).

Given the long-term orientation of the SURS investment program, it is important to track investment returns over several time periods to correctly assess performance, especially given recent market volatility. SURS investment portfolio returns are as follows:

TIME PERIOD	1-YEAR	3-YEAR	5-YEAR	10-YEAR	20-YEAR	30-YEAR
Annualized Return	23.8%	10.4%	10.3%	8.5%	7.3%	8.5%

The total rate of return over a 30-year period of 8.5% was higher than the actuarial rate of return assumption of 6.5% in effect for fiscal year 2021. Under the direction of the Illinois Auditor General, the State Actuary recommends that the Board of Trustees annually review the interest rates, payroll growth, and inflation assumption should changes in market conditions or plan demographics call for such an adjustment. Public Act 99-0232, signed in August 2015, requires SURS to have an experience study performed by the System's actuaries every three years.

Management's Discussion and Analysis

Deductions

Deductions from fiduciary net position relate to the provision of retirement annuities and other benefits, refunds to inactive members, remittance of defined contribution plan contributions to a third-party administrator, and the cost of administering the System. These deductions for fiscal year 2021 totaled $3.1 billion, an increase of $125.9 million, or 4.3% over deductions for 2020. This increase is primarily due to the $104.8 million increase in retirement and survivor annuity payments made to defined benefit plan members. Portable lump sum distributions and refunds increased by $10.1 million, or 14.6%. Administrative expenses increased by $2.8 million, or 14.6% from fiscal year 2020 to 2021.

Accelerated Pension Payment Programs

Public Act 100-0587 was signed into law June 4, 2018, and contained the following:

- Offers a buyout equal to 60% of the present value of pension benefits for vested inactive members.
- Offers a buyout equal to 70% of the present value of the difference between the Tier 1 Automatic Annual Increase (AAI) and a reduced and delayed AAI (1.5% simple, delayed until the later of age 67 or 1 year after retirement) for Tier 1 members.
- Authorizes the issuance of $1 billion worth of bonds to finance the buyout payments.

SURS implemented the two voluntary pension buyout programs starting July 1, 2019. By the end of fiscal year 2021, $22.8 million had been received from bond proceeds and paid to members that elected to participate in the accelerated pension payment programs. The programs are available until June 20, 2024.

Plan Changes

SURS completed the redesign of the Self-Managed Plan with the rollout of the SURS Retirement Savings Plan (RSP) on September 1, 2020. The new SURS Deferred Compensation Plan (DCP), a 457(b) plan, began accepting contributions on March 1, 2021.

Future Outlook

The experience review for the years June 30, 2017 to June 30, 2020, was completed in June 2021, and the assumptions adopted as of June 30, 2021. The next experience study will be performed in early 2023.

Public Act 96-0889 caps Tier 2 members' earnings at $116,740 in 2021 and future cost of living adjustments at the lesser of 3% or one-half of the change in the Consumer Price Index. This modification of Tier 2 members' earnings decreases the anticipated amount of future payroll and contributions.

The employer contributions for fiscal year 2022, mainly provided by the State of Illinois, are projected to increase by approximately $105.5 million, or 5.3%.

Benefit payments are projected to continue to grow due to increasing numbers of retirees, the 3% annual increase, and the impact of salary increases at the participating agencies. SURS will continue to structure its portfolio with the objective of maximizing returns over the long term to help offset the shortage in employer contributions.

Public Act 102-0540, which was signed into law on August 20, 2021, requires that employees who first become participants of SURS on or after July 1, 2023, be automatically enrolled into the Deferred Compensation Plan with contributions starting at 3% of their compensation (with opt-out provisions). The bill authorizes SURS to direct employee contributions for the portion of earnings in excess of the Tier 2 pensionable earnings limit to the plan (with opt-out provisions). The bill also provides for auto-escalation of the contribution amount up to 1% in any plan year.

Requests for Information

This financial report is designed to provide a general overview of the System's finances. For questions concerning the information in this report or for additional information, contact State Universities Retirement System, 1901 Fox Drive, Champaign, Illinois 61820.

Financial Statements

Statement of Fiduciary Net Position as of June 30, 2021, With Comparative Reporting Entity Totals as of June 30, 2020

	2021				
	Defined Benefit Pension Plan	Other Employee Benefit Plan	Custodial Funds	Total	2020
ASSETS					
Cash and short-term investments	$ 1,709,596,995	$ 10,702,877	$ 3,491,157	$ 1,723,791,029	$ 1,266,766,677
Receivables					
Members	10,614,296	-	2,724,483	13,338,779	15,718,356
Non-employer contributing entity	-	-	-	-	118,964,304
Federal, trust funds, and other	7,179,061	5,879	92,134	7,277,074	6,716,268
Pending investment sales	78,168,602	489,837	42,254	78,700,693	1,952,064,461
Interest and dividends	59,913,180	375,441	32,386	60,321,007	47,440,102
Total receivables	155,875,139	871,157	2,891,257	159,637,553	2,140,903,491
Prepaid expenses	140,576	-	-	140,576	133,923
Investments, at fair value					
Equity investments	9,997,064,955	62,645,771	5,403,954	10,065,114,680	6,732,741,142
Fixed income investments	6,316,264,651	39,580,344	3,414,282	6,359,259,277	5,507,377,416
Real estate investments	1,550,843,437	9,718,231	838,315	1,561,399,983	1,132,349,076
Alternative investments	4,198,134,475	26,307,259	2,269,319	4,226,711,053	5,012,453,666
Total investments	22,062,307,518	138,251,605	11,925,870	22,212,484,993	18,384,921,300
Securities lending collateral	2,128,804,290	13,339,974	1,150,734	2,143,294,998	1,381,940,165
Capital assets, at cost, net of accum deprec	11,092,315	-	-	11,092,315	10,388,424
TOTAL ASSETS	**26,067,816,833**	**163,165,613**	**19,459,018**	**26,250,441,464**	**23,185,053,980**
LIABILITIES					
Benefits payable	17,463,444	405,274	-	17,868,718	12,718,437
Refunds payable	5,318,074	-	-	5,318,074	3,601,916
Securities lending collateral	2,128,207,416	13,336,234	1,150,411	2,142,694,061	1,381,486,080
Payable to brokers for unsettled trades	127,159,288	796,833	68,736	128,024,857	2,013,885,643
Reverse repurchase agreements	619,964	3,885	335	624,184	512,000
Investment expenses payable	14,918,233	93,484	8,064	15,019,781	8,041,750
Administrative expenses payable	5,817,154	-	223,891	6,041,045	9,403,540
Contributions due to third-party administrator	-	-	5,160,631	5,160,631	6,659,232
TOTAL LIABILITIES	**2,299,503,573**	**14,635,710**	**6,612,068**	**2,320,751,351**	**3,436,308,598**
FIDUCIARY NET POSITION					
Restricted for pensions	23,768,313,260	-	-	23,768,313,260	19,617,015,606
Restricted for other employee benefits	-	148,529,903	-	148,529,903	119,479,653
Restricted for other governments	-	-	12,846,950	12,846,950	12,250,123
TOTAL FIDUCIARY NET POSITION	**$ 23,768,313,260**	**$ 148,529,903**	**$ 12,846,950**	**$ 23,929,690,113**	**$ 19,748,745,382**

The accompanying notes are an integral part of the financial statements.

Financial Statements

Statement of Changes in Fiduciary Net Position for the Year Ended June 30, 2021, With Comparative Reporting Entity Totals for the Year Ended June 30, 2020

	2021				
	Defined Benefit Pension Plan	**Other Employee Benefit Plan**	**Custodial Funds**	**Total**	**2020**
ADDITIONS					
Contributions					
Employers	$ 57,001,310	$ 338,387	$ 9,949,999	$ 67,289,696	$ 62,347,188
Non-employer contributing entity	1,921,742,123	2,566,627	71,458,250	1,995,767,000	1,854,692,000
Members	288,476,321	-	98,526,974	387,003,295	375,425,229
Total Contributions	2,267,219,754	2,905,014	179,935,223	2,450,059,991	2,292,464,417
Investment Income					
Net appreciation in fair value of investments	4,458,726,101	26,678,181	1,661,486	4,487,065,768	216,995,420
Interest	198,062,417	1,193,184	74,310	199,329,911	191,342,519
Dividends	186,062,862	1,120,896	69,808	187,253,566	200,038,867
Securities lending	6,300,112	37,954	2,364	6,340,430	5,597,401
	4,849,151,492	29,030,215	1,807,968	4,879,989,675	613,974,207
Less investment expense					
Asset management expense	85,614,897	515,769	32,121	86,162,787	67,967,190
Securities lending expense	567,010	3,416	213	570,639	504,180
Net investment income	4,762,969,585	28,511,030	1,775,634	4,793,256,249	545,502,837
TOTAL ADDITIONS	**7,030,189,339**	**31,416,044**	**181,710,857**	**7,243,316,240**	**2,837,967,254**
DEDUCTIONS					
Benefits	2,780,374,481	2,365,794	-	2,782,740,275	2,677,989,974
Refunds of contributions	79,128,037	-	-	79,128,037	69,001,514
Contributions sent to third-party administrator	-	-	178,536,338	178,536,338	170,278,264
Administrative expense	19,389,167	-	2,577,692	21,966,859	19,234,313
TOTAL DEDUCTIONS	**2,878,891,685**	**2,365,794**	**181,114,030**	**3,062,371,509**	**2,936,504,065**
Net increase (decrease)	**4,151,297,654**	**29,050,250**	**596,827**	**4,180,944,731**	**(98,536,811)**
Fiduciary Net Position					
Beginning of year, as previously stated	-	-	-	-	22,446,954,995
Impact of adoption of new	-	-	-	-	-
accounting standards	-	-	-	-	(2,599,672,802)
Beginning of year, as restated	19,617,015,606	119,479,653	12,250,123	19,748,745,382	19,847,282,193
FIDUCIARY NET POSITION END OF YEAR	**$ 23,768,313,260**	**$ 148,529,903**	**$ 12,846,950**	**$23,929,690,113**	**$19,748,745,382**

The accompanying notes are an integral part of the financial statements.

Notes to the Financial Statements

I. Description of SURS

The State Universities Retirement System (SURS or System) is the administrator of a cost-sharing, multiple-employer defined benefit plan and two multiple-employer defined contribution plans. SURS was established on July 21, 1941, to provide retirement annuities and other benefits for employees of the state universities, certain affiliated organizations, and certain other state educational and scientific agencies and for survivors, dependents, and other beneficiaries of such employees. SURS is governed by Chapter 40, Act 5, Article 15, of the Illinois Compiled Statutes. The Illinois General Assembly has the authority to establish and amend the benefit provisions of the plans offered by SURS. Operation of SURS and the direction of its policies are the responsibility of the SURS Board of Trustees. The Board of Trustees consists of six elected and five appointed board members. There are no statutory provisions for termination of the System. The Illinois Constitution provides that the pension obligation of the State shall be an enforceable contractual relationship, the benefits of which shall not be diminished or impaired.

The membership, contributions, and benefit provisions related to the System's three plans are presented in the following summary of the provisions of SURS in effect as of June 30, 2021, as defined in the Illinois Compiled Statutes. Interested parties should refer to the SURS Member Guide or the statutes for more complete information.

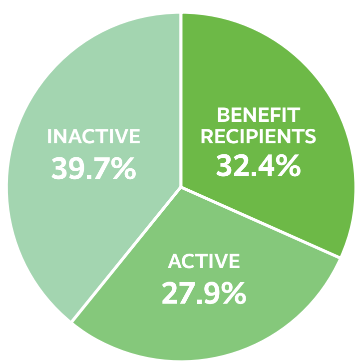
The financial statement presentation of the System's benefit plans is driven by governmental accounting standards for fiduciary activities. An explanation of how these standards affect the presentation of the System's three plans can be found in the Reporting Entity section of the Summary of Significant Accounting Policies.

A. Defined Benefit Plan

As of June 30, 2021, two benefit packages are offered by the defined benefit plan: the traditional benefit package and the portable benefit package. The traditional benefit package is the System's original benefit offering and was established in 1941. Public Act 90-0448 was enacted effective January 1, 1998, which established an alternative defined benefit program known as the portable benefit package. This portable benefit option is offered in addition to the traditional benefit option. New employees are allowed 6 months after their date of hire to make an irrevocable election to participate in either the traditional benefit package, portable benefit package, or the Retirement Saving Plan (RSP).

The System's fiduciary net position and changes in fiduciary net position related to the defined benefit plan are shown in the Defined Benefit Pension Plan column on the financial statements.

Defined Benefit Plan



At June 30, 2021, and 2020, the number of participating employers was:

	2021	2020
Universities	**9**	9
Community Colleges	**39**	39
Allied Agencies	**11**	11
State Agencies	**2**	2
	61	61

Note: Excluded from the employer totals above is the State of Illinois, a non-employer contributing entity.

1. Membership

Participation is required as a condition of employment. Employees are ineligible to participate if (a) employed less than full-time and attending classes with an employer; (b) receiving a retirement annuity from SURS; or (c) excluded by subdivision (a) (7)(f) or (a)(19) of Section 210 of the Federal Social Security Act from the definition of employment given in that Section.

At June 30, 2021, and 2020, defined benefit plan membership consisted of:

	2021	2020
Benefit Recipients	**70,111**	69,172
Active Members	**60,397**	63,206
Inactive Members	**86,135**	83,744
	216,643	216,122

2. Benefit Provisions

The traditional and portable benefit packages are offered in two different tiers. Tier I is offered to members who began participation prior to January 1, 2011. Public Act 96-0889 revised the traditional and portable benefit packages for members who begin participation on or after January 1, 2011, and who do not have other eligible Illinois reciprocal system services. The revised plan is referred to as Tier II. The following is a summary of the benefit provisions as of June 30, 2021.

Notes to the Financial Statements

	Traditional Plan - Tier I	Traditional Plan - Tier II	Portable Plan
Retirement Vesting	5 years of service	10 years of service	5 years of service (Tier I) and 10 years of service (Tier II)
Retirement Age Requirement	Age 62, with at least 5 years Age 60, with at least 8 years At any age with at least 30 years	Age 67, with at least 10 years of service	Tier I—Same as Traditional Plan Tier I Age Requirement Tier II—Same as Traditional Plan Tier II Age Requirement
Final Rate of Earnings (FRE)	Average earnings during 4 highest consecutive academic years; or Average of the last 48 months prior to termination.	Average earnings during 8 high consecutive academic years of the last 10; or Average of the high 96 consecutive months of last 120 months (if applicable).	Tier I—Same as Traditional Plan Tier I FRE Tier II—Same as Traditional Plan Tier II FRE
Retirement Benefit AAI (Automatic Annual Increase)	The AAI is 3% compounded annually.	The AAI is calculated using the lesser of 3% or one-half of the change in the consumer price index. The increase will not be compounded.	Tier I—Same as Traditional Plan Tier I AAI Tier II—Same as Traditional Plan Tier II AAI
Survivor Benefits	An eligible survivor receives a minimum of 50% of the member's earned retirement annuity.	An eligible survivor receives 66 $^2/_3$% of the member's earned retirement annuity.	Based upon selection at retirement of 50%, 75% or 100% of the member's earned retirement annuity.
Survivor AAI (Automatic Annual Increase)	The AAI is 3%, compounded annually.	The AAI is calculated using the lesser of 3% or one-half of the change in the consumer price index. The increase will not be compounded.	Tier I—Same as Traditional Plan Tier I Survivor AAI Tier II—Same as Traditional Plan Tier II Survivor AAI

Public Act 101-610, effective January 1, 2020, allows Tier II police officers and firefighters to retire at age 60 (instead of age 67) without a reduced retirement annuity under the special formula for police officers and firefighters.

SURS also provides disability, death, and refund benefits as authorized in Chapter 40, Act 5, Article 15, of the Illinois Compiled Statutes.

Disability benefits are payable to all members with at least 2 years of service credit if they are unable to reasonably perform the duties of their assigned position due to a physical or mental impairment as certified by a physician. The benefit becomes payable when sick leave payments are exhausted or after 60 days of the disability, whichever is later. The benefit is payable at a rate of 50% of the monthly rate of compensation on the date the disability began. Disability benefits are reduced by any payments received under the Workers' Compensation or the Occupational Diseases Act. If a member remains disabled after receiving the maximum benefits due, they may be eligible for a disability retirement annuity equal to 35% of the monthly rate of compensation on the date the disability began.

Death benefits are payable to named beneficiaries upon the death of any member of this System. Under the traditional benefit package, monthly survivor benefits may be paid to eligible survivors if the member established a minimum of 1.5 years of service credit prior to the date of death. If no qualified survivor exists at the date of retirement, the member is paid a refund of all survivor contributions plus interest. Under the portable benefit package, survivor benefits are available through a reduction of the retirement annuity calculated as described above. No refund of survivor contributions is available if there is no qualified survivor at the time of retirement. These provisions are designed to allow the impact of the portable benefit package's enhanced refund opportunity to be cost neutral.

Upon the death of an annuitant, SURS will pay either a death benefit to a non-survivor beneficiary or a monthly survivor benefit to an eligible survivor. The amount of the monthly survivor benefit will differ depending upon whether the annuitant had selected the traditional benefit package or the portable benefit package.

Upon termination of service, a lump sum refund is available to all members. Under the traditional benefit package, this refund consists of all member contributions and interest at 4.5%. Under the portable benefit package, this refund consists of all member contributions and total interest credited, plus for those members with greater than or equal to 5 years of service credit, an equal amount of employer contributions. Under both defined benefit plan options, a member with 5 or more years of service credit who does not apply for a refund may apply for a normal retirement benefit payable at age 62.

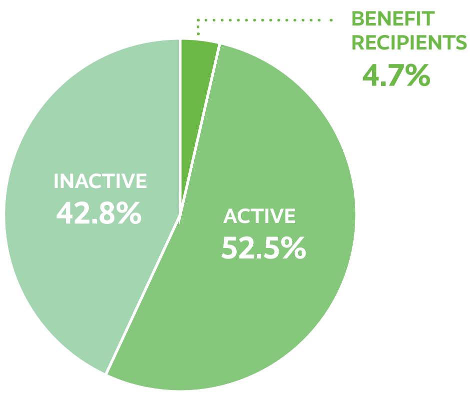
Notes to the Financial Statements

B. Retirement Savings Plan

SURS is the plan sponsor and administrator of a defined contribution plan called the SURS Retirement Savings Plan (RSP). The RSP was established as of January 1, 1998, by the Illinois General Assembly as an amendment to the Illinois Pension Code through Public Act 90-0448. The plan was originally called the Self-Managed Plan (SMP). The name change to Retirement Savings Plan was effective September 1, 2020, at the conclusion of an extensive plan redesign. The RSP is offered to employees of all SURS employers who elect to participate. This plan is a qualified money purchase pension plan under Section 401(a) of the Internal Revenue Code. The assets of the RSP are maintained under a trust administered by the SURS Board of Trustees in accordance with the Illinois Pension Code.

Important information about the financial statement presentation of the Retirement Savings Plan can be found in the Reporting Entity section of the Summary of Significant Accounting Policies.

Retirement Savings Plan



At June 30, 2021, and 2020, the number of RSP participating employers was:

	2021	2020
Universities	**9**	9
Community Colleges	**39**	39
Allied Agencies	**8**	8
State Agencies	**2**	2
	58	58

Note: Excluded from the employer totals above is the State of Illinois, a non-employer contributing entity.

1. Membership

A member may elect participation in the RSP if (a) all participation criteria for the defined benefit plan are met; (b) the employer has elected through Board action to offer the Retirement Savings Plan; (c) the employee is on active status at the plan offering date; and (d) the employee is not eligible to retire as of the employer plan offering date. The member election is irrevocable. New employees are allowed 6 months from the date of hire in which to make their election. If no election is received, members are defaulted into the defined benefit plan, under the traditional benefit package.

At June 30, 2021, and 2020, the RSP membership consisted of:

	2021	2020
Benefit Recipients	**1,168**	1,007
Active Members	**13,046**	13,129
Inactive Members	**10,618**	10,280
	24,832	24,416

2. Benefit Provisions

The RSP provides retirement, disability, death, and survivor benefits as authorized in Chapter 40, Act 5, Article 15, of the Illinois Compiled Statutes, and amended by Public Act 90-0448.

Retirement benefits are payable to members meeting minimum vesting requirements of 5 years of service credit at age 62, 8 years of service credit at age 55, or 30 years of service credit regardless of age. The plan offers a lump sum option and two lifetime income options for distributions upon reaching retirement eligibility. The lump sum distribution option is a payment of all employee and employer contributions and related investment earnings in either a one-time payment or multiple distributions. One lifetime distribution option is utilization of the full account balance to purchase one of the following types of annuities: a single life annuity; a 50% or 100% joint and survivor annuity; a single life annuity with a guaranteed period of 10, 15, or 20 years as elected by the member; or a 50% or 100% joint and survivor annuity with a guaranteed period of 10, 15, or 20 years as elected by the member. The second lifetime distribution option is utilization of the SURS Lifetime Income Strategy (LIS). The LIS allows members to allocate between 0% and 100% of their account balance to a Secure Income Portfolio that provides guaranteed monthly retirement income for life. All or a portion of the account balance remains available for ad-hoc distributions as needed.

Disability benefits are payable to all members with at least 2 years of service credit if they are unable to reasonably perform the duties of their assigned position due to physical impairment as certified by a physician. The benefit becomes payable when sick leave payments are exhausted or after 60 days of the disability, whichever is later. The benefit is payable at a rate of 50% of the monthly rate of compensation on the date the disability began. Disability benefits are reduced by any payments under Workers' Compensation or the Occupational Diseases Act.

Upon termination of service with less than 5 years of service credit, a lump sum distribution is available which consists of employee contributions and related investment earnings. The employer contributions and related investment earnings are forfeited. Upon termination of service with greater than 5 years of service credit but where the member is not yet eligible for retirement, a lump sum distribution is available which consists of employee and employer contributions and related investment earnings.

Death benefits are payable to named beneficiaries upon the death of any member of this plan. If the member has less than 1.5 years of service credit, the death benefit payable is the employee contributions and related investment earnings. If the member has 1.5 or more years of service credit, the death benefit payable is the employee and employer contributions and related investment earnings.

C. Deferred Compensation Plan

Public Act 100-769, effective August 10, 2018, required SURS to introduce an optional supplemental defined contribution plan. This optional defined contribution plan is known as the SURS Deferred Compensation Plan (DCP) and began accepting contributions on March 1, 2021. This plan is a governmental deferred compensation plan under Section 457(b) of the Internal Revenue Code. Participation in the plan by SURS members is voluntary, though all SURS employers are required to adopt the plan by September 1, 2021. The assets of the DCP are maintained under a trust administered by the SURS Board of Trustees in accordance with the Illinois Pension Code.

As of June 30, 2021, the DCP had 287 members enrolled across 31 different employers.

Important information about the financial statement presentation of the Deferred Compensation Plan can be found in the Reporting Entity section of the Summary of Significant Accounting Policies.

1. Membership

A member may elect participation in the DCP if (a) all participation criteria for the defined benefit plan are met; (b) the employee is on active status at the plan offering date; and (c) the employee is not eligible to retire as of the employer plan offering date.

2. Benefit Provisions

The DCP provides retirement benefits to participating members.

Distributions from the DCP are allowed upon separation from SURS-covered employment, attainment of age 59½, disability, an unforeseeable emergency, or death. The DCP offers a lifetime distribution option called the SURS Lifetime Income Strategy (LIS). The LIS allows members to allocate between 0% and 100% of their account balance to a Secure Income Portfolio that provides guaranteed monthly retirement income for life. The account balance remains available for ad-hoc distributions as needed. Members must be at least 60 years old to start receiving guaranteed monthly retirement income from the LIS.

DCP participants are always 100% vested in all contributions and investment earnings (including employer contributions and related investment earnings), regardless of years of service credit attained.

II. Summary of Significant Accounting Policies

A. Reporting Entity

Accounting standards promulgated by the Governmental Accounting Standards Board (GASB) define the financial reporting entity as consisting of a primary government as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable, or for which the nature and significance to the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or otherwise incomplete. Financial accountability is defined as:

1. Appointment of a voting majority of the organization's board and either (a) the ability to impose will by the primary government or (b) the possibility that the organization will provide a financial benefit to or impose a financial burden on the primary government; or
2. Fiscal dependency on the primary government and potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

According to these criteria, SURS is a component unit of the State of Illinois.

Notes to the Financial Statements

Additional fiduciary activity and component unit criteria were introduced by GASB Statement No. 84, *Fiduciary Activities*, and GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans.* These new criteria affect determination of voting majority appointment, fiscal dependency, control of assets, and the relationship between pension plans and their plan administrators. SURS reevaluated its financial reporting entity in response to these standards.

SURS financial reporting entity consists of three types of fiduciary funds.

- The defined benefit pension plan reflects the activities and financial position of the defined benefit plan (a fiduciary component unit).
- The other employee benefit plan reflects the activities and financial position of the Retirement Savings Plan's disability benefit only.
- The custodial funds reflect the activities and financial position of the Retirement Savings Plan’s and Deferred Compensation Plan’s retirement, death, and survivor benefits and plan administration. Aspects of these plans that have been assigned to a third-party administrator are not included in SURS reporting entity per governmental accounting standards.

B. Change in Accounting Principle

As of July 1, 2020, the System adopted GASB Statement No. 84, *Fiduciary Activities*. As a result, the System began reporting the Retirement Savings Plan and the Deferred Compensation Plan as custodial funds and no longer reports any funds not controlled by the System. The System also made a change to report the disability benefit of the Retirement Savings Plan as a separate employee benefit fund. The System’s beginning fiduciary net position as of July 1, 2019, has been restated by (2,599,672,802) to reflect the impact of the adoption. The 2020 comparative totals have also been restated.

C. Measurement Focus and Basis of Accounting

Transactions are recorded using the economic resources measurement focus and accrual basis of accounting. Member and employer contributions are recognized as fiduciary fund additions when due to SURS, pursuant to statutory or contractual requirements. Benefits and refunds are recognized as fiduciary fund deductions when due and payable in accordance with the terms of the plans.

D. Use of Estimates

The preparation of the System’s financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates and those differences could be material. The System uses an actuary to determine the actuarial accrued liability for the defined benefit pension plan and to determine the actuarially determined contribution.

E. Risks and Uncertainties

The System invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities could occur in the near-term, and that such changes could materially affect the amounts reported in the Statement of Fiduciary Net Position.

As a result of the spread of the SARS-CoV-2 virus and the incidence of COVID-19, economic uncertainties have arisen which may negatively affect the fiduciary net position of the System. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

F. Cash and Short-Term Investments

Included in the $1,723,791,029 of cash and short-term investments presented in the Statement of Fiduciary Net Position is $77,498,852 of short-term investments with original maturities of less than 90 days. For purposes of the data tables presented in Note IV, this group of short-term investments is included as part of fixed income investments. Short-term investments are generally reported at cost, which approximates fair value.

Notes to the Financial Statements

G. Investments

Investments are governed by Chapter 40, Act 5, Articles 1 and 15, of the Illinois Compiled Statutes. The most important aspect of the statutes is the prudent expert rule, which establishes a standard of care for all fiduciaries. (A fiduciary is any person who has authority or control with respect to the management or administration of plan assets.) The prudent expert rule states that fiduciaries must discharge their duties with the care, skill, prudence, and diligence that a prudent person acting in a like capacity and familiar with such matters would use under conditions prevailing at the time. Purchases and sales of securities are recorded on a trade-date basis. Interest income is reported on the accrual basis. Dividends are recorded on the ex-dividend date.

Investments are generally reported at fair value. Marketable securities (stocks, bonds, warrants, and options) are traded on public exchanges. The Northern Trust Company, SURS custodial bank, establishes these prices using third-party pricing services. Generally, these values are reported at the last reported sales price. Certain investments that do not have an established market value are reported at estimated fair value obtained from a custodial bank or investment management firm. These investments include commingled investment pools, where the underlying assets are individually marked to market (i.e., estimated fair value) on a daily basis and individually traded on publicly recognized exchanges. The investment manager, using methods approved by the CFA Institute or other industry standards, values non-marketable securities (real estate and private equity). These methods generally include detailed property level appraisals and discounted cash flow analysis.

H. Capital Assets

Capital assets are recorded at historical cost and depreciated over the estimated useful life of each asset. Monthly depreciation is computed using the straight-line method.

I. Administrative Expenses

System administrative expenses are budgeted and approved by the System's Board of Trustees. Funding for these expenses is included in the non-employer contribution as determined by the annual actuarial valuation and appropriated by the State of Illinois.

J. Prior Year Comparative Information

The financial statements include certain prior year summarized comparative information in total, but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the System's financial statements as of and for the year ended June 30, 2020, from which the summarized comparative information was derived. The 2020 comparative information has been restated for the adoption of GASB Statement No. 84.

K. New Accounting Pronouncements

GASB Statement No. 84, *Fiduciary Activities*, was originally effective for financial reporting periods beginning after December 15, 2019. The effective date of this Statement was postponed one year due to GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which was issued in May 2020. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. SURS implemented this statement for the year ending June 30, 2021. Changes made to SURS financial statement presentation because of this statement are discussed in the Reporting Entity and Change in Accounting Principle sections of this footnote.

GASB Statement No. 87, *Leases*, was originally effective for financial reporting periods beginning after December 15, 2019. The effective date of this Statement was postponed eighteen months due to GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which was issued in May 2020. The objective of this Statement is to improve the accounting and financial reporting for leases by governments. This statement will require recognition of certain lease assets and liabilities for leases that previously were categorized as operating leases and recognized as inflow of resources or outflows of resources based on the payment provisions of the contract. This Statement is not considered to have a material impact on the System's financial statements.

GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, was issued in May 2020. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective was accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or scheduled to become effective for periods beginning after June 15, 2018. Statement No. 84, *Fiduciary Activities*, was postponed by one year. Statement No. 87, *Leases*, was postponed 18 months.

Notes to the Financial Statements

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, is effective for financial reporting periods beginning after June 15, 2022. The objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. SURS will implement this Statement for the year ending June 30, 2022.

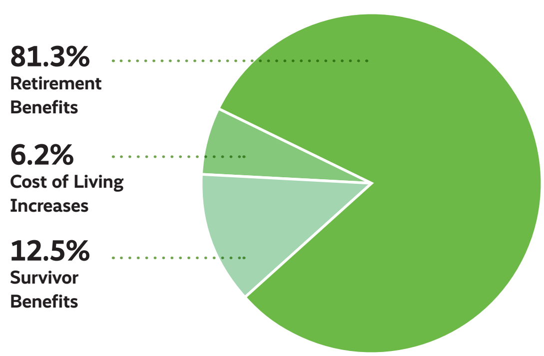
GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, is effective for financial reporting periods beginning after June 15, 2021. This statement is an amendment of GASB Statements No. 13 and No. 84 and a supersession of GASB Statement No. 32. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. SURS implemented this Statement for the year ending June 30, 2021, as applicable.

GASB Statement No. 98, *The Annual Comprehensive Financial Report,* is effective for fiscal years ending after December 15, 2021. The statement establishes the term *annual comprehensive financial report* and its acronym, *ACFR*. That new term and acronym replace instances of *comprehensive annual financial report* and its acronym in generally accepted accounting principles for state and local governments. SURS implemented this Statement for the year ending June 30, 2021.

III. Contributions and Fiduciary Net Position Designations

In response to governmental accounting standards that were newly effective for fiscal year 2021, SURS financial statements are presented according to the specific fiduciary activities being conducted by SURS. Each section of this footnote includes a Composition section to establish which SURS plan(s) comprises each fiduciary activity. Important information about the financial statement presentation of SURS benefit plans is found in the Reporting Entity and Change in Accounting Principle sections of the Summary of Significant Accounting Policies.

Member Contributions



A. Defined Benefit Pension Plan

1. Composition

The defined benefit pension plan presented in SURS financial statements reflects the activities and fiduciary net position of the defined benefit plan.[1]

2. Membership Contributions

In accordance with Chapter 40, Act 5, Article 15, of the Illinois Compiled Statutes, members of the traditional benefit package contribute 8% of their gross earnings; 6.5% of those are designated for retirement annuities, 0.5% for post-retirement increases, and 1% for survivor benefits. Police officers and firefighters contribute 9.5% of earnings; the additional 1.5% is a normal retirement contribution. Members of the portable benefit package contribute 8% of their gross earnings; 6.5% of those are designated for retirement annuities, 0.5% for post-retirement increases, and 1% for enhanced refund benefits. Police officers and firefighters contribute 9.5% of earnings; the additional 1.5% is a normal retirement contribution. These statutes assign the authority to establish and amend the contribution provisions of the plan to the Illinois General Assembly. The member contributions are picked up by the employer and treated as employer contributions for income tax purposes. Retirement contributions are based on the gross earnings before the employer pick-up and are included in earnings. All contributions on pre-1981 earnings and service credit payments, plus future other public employment, prior service, refund repayments, leave payments, military service payments, and the employee portion of Early Retirement Option payments, are considered as previously taxed, unless qualifying funds are rolled over to SURS to make these purchases, or unless the payments are made in installments through employer deductions from payroll. Previously taxed contributions will be recovered tax-free when distributed to the member in the form of benefits or payments or to his or her beneficiary as a death and/or survivor benefit.

[1]This fund also contains the activity of the SURS Board of Trustees, though it is negligible in comparison to the defined benefit plan.

3. Interest Credited on Member Contributions

For the traditional and portable benefit packages, the interest rate credited is approved by the Board of Trustees and is 6.0% for the year ended June 30, 2021. For purposes of lump sum refunds to former members, the traditional benefit package offers an interest rate of 4.5%, compounded annually, and the portable benefit package offers an interest rate equal to the credited rate, compounded annually. A change brought forth by the enactment of Public Act 94-0004 and effective July 1, 2005, calls for the Comptroller of the State of Illinois to set the interest rate credited to member contribution balances for purposes of the calculation of retirement annuities under the money purchase formula. That rate is 6.0% for the year ended June 30, 2021, and will be 5.5% for the year ended June 30, 2022.

Members certified after July 1, 2005, will not be eligible for the money purchase formula calculation. Rather, their retirement annuity will be calculated using the general formula.

4. Employer Contributions

On an annual basis, an actuarial valuation is performed to determine the amount of statutorily required contributions from the State of Illinois (a non-employer contributing entity) and the normal cost. Public Act 99-0232 requires an actuarial experience study to be performed every 3 years to determine the assumptions to be used in the annual valuation. The last actuarial experience study was completed in June 2021. To determine the funding method, Public Act 88-0593 was passed by the Illinois General Assembly in 1994. This Act, which took effect on July 1, 1995, provides a 50-year schedule of State contributions to the System designed to achieve a 90% funded ratio by fiscal year 2045. This plan requires the State as the non-employer contributing entity to make continuing appropriations to meet the normal actuarially determined cost of the System, plus amortize the unfunded accrued liability. In fiscal year 2021 the State of Illinois contributed $1,921,742,123 to the defined benefit pension plan. The employer normal cost calculation is based on the same actuarial results, assumptions, and methods used to calculate the State contribution and results in the employer contribution rate that is applied to all earnings paid from federal, grant, and trust funds. The Board of Trustees adopted 12.70% of covered earnings as the employer normal cost for fiscal year 2021. In compliance with Public Act 94-0004, employers must pay the System the present value of the increase in benefits resulting from the portion of increase in earnings that is in excess of 6%. In compliance with Public Act 100-0023, employers must pay the System the normal cost of the portion of a member's earnings that exceed the amount of salary set for the Governor. In fiscal year 2021, employer contributions to the defined benefit pension plan were $57,001,310.

5. Fiduciary Net Position Accounts

The System maintains two designated accounts for the assignment of fiduciary net position:

a. The Member Contributions account contains the pension assets contributed by each member and the interest income earned by those contributions.
b. The Benefits from Member and Employer Contributions account contains the fiduciary net position available for annuities in force and available for future retirement, death and disability benefits, the undistributed investment income, the unexpended administrative expense allocation, and the variations in actuarial assumptions.

Balances in these designated accounts as of June 30, 2021, were as follows:

Member contributions	$ 6,843,122,604
Benefits from member and employer contributions	16,925,190,656
TOTAL FIDUCIARY NET POSITION	**$ 23,768,313,260**

6. Ownership of Greater than 5 Percent of Fiduciary Net Position Available for Benefits

There are no significant investments in any one organization that represent 5% or more of fiduciary net position available for benefits.

B. Other Employee Benefit Plan

1. Composition

The other employee benefit plan presented in SURS financial statements reflects the activities and fiduciary net position of the disability benefit offered to members in the Retirement Savings Plan.

2. Membership Contributions

Member contributions to the Retirement Savings Plan relate to the plan's retirement benefit only. As a result, this fund does not receive member contributions.

Notes to the Financial Statements

3. Employer Contributions

In accordance with Chapter 40, Act 5, Article 15 of the Illinois Compiled Statutes, employers must contribute to the RSP disability benefit at a rate of no more than 1% of the member's gross earnings. The employer contribution for RSP disability benefits has been 0.25% of member gross earnings since July 1, 2018. Employers are responsible for making contributions on earnings paid from the employer's federal, grant and trust funds only. Employer contributions on other earnings are made by the State of Illinois (a non-employer contributing entity) in accordance with the applicable provisions of the Illinois Pension Code.

For fiscal year 2021, the State of Illinois contributed $2,566,627 toward the RSP disability benefit, and employer contributions were $338,387.

4. Fiduciary Net Position Accounts

The other employee benefit plan maintains one designated fiduciary net position account, which reflects the fiduciary net position available for both RSP disability benefits in force and future RSP disability benefits. The balance in this account was $148,529,903 as of June 30, 2021.

Assets related to RSP disability benefits are commingled with the investment assets of the defined benefit pension plan. Investment gain or loss is credited to these balances based upon the annual investment return of the commingled assets. For fiscal year 2021, the investment income credited to these balances was $28,511,030.

5. Ownership of Greater than 5 Percent of Fiduciary Net Position Available for Benefits

There are no significant investments in any one organization that represent 5% or more of fiduciary net position available for benefits.

C. Custodial Funds

1. Composition

The custodial funds presented in SURS financial statements reflect the activities and fiduciary net position related to SURS role in the provision of the Retirement Savings Plan's retirement, death, and survivor benefits; the Deferred Compensation Plan's retirement benefit; and the administration of both plans. SURS maintains separate custodial funds for the RSP and the DCP.

SURS utilizes a third-party administrator for certain aspects of the RSP and DCP. Fiduciary activities assigned to and assets held by the third-party administrator are not included in SURS financial reporting entity.

2. Membership Contributions

a. Retirement Savings Plan

In accordance with Chapter 40, Act 5, Article 15 of the Illinois Compiled Statutes, members contribute 8% of their gross earnings. These statutes assign the Illinois General Assembly the authority to establish and amend the contribution provisions of the plan.

The member contributions are picked up by the employer and treated as employer contributions for income tax purposes. Retirement contributions are based on the gross earnings before the employer pick-up and are included in earnings. Contributions are received and verified by SURS and then remitted to the third-party administrator for members' investment.

Service credit purchase payments are considered as previously taxed, unless qualifying funds are rolled over to SURS to make these purchases. Previously taxed contributions will be recovered tax-free when distributed to the employee in the form of benefits or refunds, or to his or her beneficiary as a death and/or survivor benefit.

Member contributions to the RSP totaled $98,252,944 for the year ending June 30, 2021.

b. Deferred Compensation Plan

Member contributions to the plan are allowed up to IRS limits. Members can designate contributions as Traditional (pretax) or Roth (post-tax). Contributions to the DCP are for supplemental retirement savings and do not provide service credit to members. Contributions are received and verified by SURS and then remitted to the third-party administrator for members' investment.

The Defined Contribution began accepting contributions on March 1, 2021. For the four months ending June 30, 2021, members contributed $274,030 to the plan.

Notes to the Financial Statements

3. Employer Contributions

a. Retirement Savings Plan

In accordance with Chapter 40, Act 5, Article 15 of the Illinois Compiled Statutes, employers must contribute to the RSP at a rate of 7.6% of the member's gross earnings. Contributions are received and verified by SURS, and then, remitted to the third-party administrator for members' investment. The amount of employer contributions available for member investment is net of the amount retained by SURS to provide disability benefits (0.25% since July 1, 2018).

Employers are responsible for making contributions on earnings paid from the employer's federal, grant, and trust funds only. Employer contributions on other earnings are made by the State of Illinois (a non-employer contributing entity) in accordance with the applicable provisions of the Illinois Pension Code.

For fiscal year 2021, the State of Illinois contributed $68,880,558 toward RSP member accounts, while employers contributed $9,949,999. The State of Illinois also contributed $1,522,902 to the RSP for administrative expenses.

b. Deferred Compensation Plan

Employers are allowed to make matching and/or discretionary contributions to member accounts up to IRS limits, though no such contributions were made in fiscal year 2021. The State of Illinois contributed $1,054,790 to the DCP for administrative expenses during the year.

4. Fiduciary Net Position Accounts

a. Retirement Savings Plan

The RSP's custodial fund maintains one designated fiduciary net position account, which relates to employer forfeitures. This account reflects employer contributions that were forfeited from member accounts due to termination prior to reaching five years of service. Future State of Illinois contributions are reduced by the assets held in this custodial fund. The balance in this account was $12,846,950 as of June 30, 2021.

Assets related to employer forfeitures are commingled with the investment assets of the defined benefit pension plan. Investment gain or loss is credited to these balances based upon the annual investment return of the commingled assets. For fiscal year 2021, the investment income credited to these balances was $1,775,634.

b. Deferred Compensation Plan

The DCP's custodial fund does not maintain any fiduciary net position accounts. Member and employer contributions are immediately due to the third-party administrator. Administrative expenses incurred are funded by State of Illinois contributions.

5. Ownership of Greater than 5 Percent of Fiduciary Net Position Available for Benefits

There are no significant investments in any one organization that represent 5% or more of fiduciary net position available for benefits.

IV. Deposits and Investments

Fair Value Measurement

The System categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value (NAV) per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The System's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability. The table on page 33 shows the fair value leveling of the investments for the System.

Short-term securities generally include investments in money market-type securities reported at cost plus accrued interest, which approximates market or fair value.

Notes to the Financial Statements

Equity (including real estate investment trust securities) and derivative securities classified in Level 1 are valued using prices quoted in active markets for those securities.

Debt and debt derivative securities classified in Level 2 and Level 3 are valued using either a bid evaluation or a matrix pricing technique. Bid evaluations may include market quotations, yields, maturities, call features, and ratings. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Index-linked debt securities are valued by multiplying the external market price feed by the applicable day's Index Ratio. Level 2 debt securities have non-proprietary information that was readily available to market participants from multiple independent sources which are known to be actively involved in the market. Level 3 debt securities use proprietary information or single source pricing. Equity and equity derivative securities classified in Level 2 are securities whose values are derived daily from associated traded securities. Equity securities classified in Level 3 are valued with last trade data having limited trading volume.

The valuation method for certain equity, fixed income, and marketable alternatives investments is based on the investments' NAV per share (or its equivalent) provided by the investee. The table on page 34 shows the investments of the System measured at the NAV per share.

Commingled Equity Funds
This type of investment consists of equities diversified across all sectors. The fair values of the investments in this type have been determined using the NAV per share of the investments.

Commingled Fixed Income Funds
This type of investment consists of fixed income securities diversified across all sectors. The fair values of the investments in this type have been determined using the NAV per share of the investments.

Diversifying Strategy Funds
This type of investment provides diversification benefits to the total portfolio and includes investments that show little to no correlation to traditional economic growth assets. The investments include allocations to both systematic trend following and alternative risk premia. The fair value of these investments has been determined using the NAV per share of the investments.

Private Equity Partnerships
This type of investment consists of limited partnerships. The types of strategies included in this portfolio are venture capital, buyouts, special situations, mezzanine, and distressed debt. Infrastructure fund investments are included in private equity partnerships. Private equity partnerships have an approximate life of 10 years and are considered illiquid. Redemptions are restricted over the life of the partnership. During the life of the partnerships, distributions are received as underlying partnership investments are realized. The System has no plans to liquidate the total portfolio. As of June 30, 2021, it is probable all of the investments in this type will be sold at an amount different from the NAV per share (or its equivalent) of the System's ownership interest in partner's capital.

Real Estate Funds
This type includes investments in core open-end funds and non-core real estate funds. Investments in open-end funds have limited redemption availability as redemption opportunities are based on available liquidity. Non-core funds do not offer redemptions. The nature of these investments is that distributions from each investment will be received as the underlying investments are liquidated. The System has no plans to liquidate the total portfolio. As of June 30, 2021, it is probable all of the investments in this type will be sold at an amount different from the NAV per share (or its equivalent) of the System's ownership interest in partner's capital.

Notes to the Financial Statements

Investments and Short-Term Holdings Measured at Fair Value
($ in thousands)

	As of June 30, 2021	Fair Value Measurements Using Level 1	Level 2	Level 3
Investments by Fair Value Level				
Debt securities				
U.S. government	$ 2,562,987	$ 2,562,987	$ -	$ -
U.S. agency obligations	926,464	-	902,277	24,187
U.S. municipal obligations	94,821	-	89,797	5,024
U.S. corporate obligations	1,212,317	-	1,210,991	1,326
U.S. asset backed	191,451	-	133,620	57,831
Fixed income funds	4,910	4,910	-	-
Foreign obligations	847,889	-	816,811	31,078
Total debt securities	$ 5,840,839	$ 2,567,897	$3,153,496	$119,446
Short-term securities and cash adjustments	$ 69,341	$ 69,341	-	-
Equity securities				
U.S. equity securities	$ 3,449,609	$ 3,448,105	$ 1,188	$ 316
Foreign equity securities	2,016,754	2,016,724	-	30
Total equity securities	$ 5,466,363	$ 5,464,829	$ 1,188	$ 346
Investments Measured at the Net Asset Value (NAV)				
Commingled fixed income funds	$ 516,547			
Commingled equity funds	1,153,974			
Comingled foreign equity funds	3,449,145			
Private real estate funds	1,561,400			
Private equity funds	2,649,811			
Diversifying strategy funds	1,576,900			
Total investments measured at the NAV	$ 10,907,777			
Total investments by fair value level and measured at the NAV	$ 22,284,320			
Investment Derivative Instruments				
U.S. fixed income derivatives	$ 10,079	$ -	$ 10,079	$ -
Foreign fixed income derivatives	(48)	-	(48)	-
U.S. equity derivatives	(2,552)	(2,650)	-	98
Foreign equity derivatives	(1,815)	(1,815)	-	-
Total investment derivative instruments	$ 5,664	$ (4,465)	$ 10,031	$ 98
Invested Securities Lending Collateral				
Fixed income securities	$ 2,143,295	$ -	$2,143,295	$ -

Investments Measured at the Net Asset Value ($ in thousands)

	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Commingled fixed income funds [(1)]	$ 516,547	$ -	Daily, Monthly	1–10 Days
Commingled U.S. equity, international equity, and global equity funds	4,603,119	-	Daily, Monthly	2–5 Days
Private real estate funds [(2)]	1,561,400	428,643	Quarterly, if Eligible	45–90 Days, if Eligible
Private equity funds [(2)]	2,649,811	1,305,524	Not Eligible	N/A
Diversifying strategy funds [(3)]	1,576,900	-	Daily, Monthly, Quarterly, Semi-Annually, Annually	3–90 Days
	$ 10,907,777	**$ 1,734,167**		

[(1)] **Commingled funds.** Two fixed income funds, one U.S. equity fund, three international equity funds, and three global equity funds are considered to be commingled in nature. Each are valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.

[(2)] **Private real estate and private equity funds.** The real asset investments are 34 core, value-add, and opportunistic real asset funds. The private equity funds are 204 limited partnership interests in equity or debt securities of privately held companies. The private credit equity funds are 3 yield oriented and opportunistic private credit funds. Core open-end real asset funds generally provide liquidity possibilities through redemption opportunities. Real asset closed-end funds and private equity funds are not eligible for redemption.

[(3)] **Diversifying strategy funds.** Eight funds invest in a select group of underlying managers that implement a number of different alternative investment strategies and invest in a variety of markets through limited partnerships, limited liability companies, and other investment entities.

Custodial Credit Risk for Deposits

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, SURS deposits may not be returned. Cash held in the investment-related bank account in excess of $250,000 is uninsured. SURS has a formal policy to address custodial credit risk. Deposits are under the custody of The Northern Trust Company, which has an Aa2 Long Term Bank Deposit rating by Moody's and an AA rating by Fitch. At June 30, 2021, the carrying amount of cash was $1,723,791,029. The bank balance was $1,658,995,999, of which $8,718,171 was foreign currency deposits and was exposed to custodial credit risk. The carrying amount of cash includes $77,498,852 of short-term bills and notes, which are considered to be investments for the purpose of assessing custodial credit risk.

Overlay Program

SURS employs a manager to provide an overlay program to ensure the System's major asset classes remain within a certain percentage of their targeted weights. Market movements can lead to significant implicit tilts within the portfolio. For example, a sharp decline in equities will many times be accompanied by stability within fixed income. Consequently, the equity position will decrease as a percentage of assets while fixed income will increase. This causes an implicit tilt towards fixed income. The overlay program brings these implicit tilts back within an acceptable band and is a cost-effective way to rebalance assets.

Investment Policies

Investments are governed by Chapter 40, Act 5, Articles 1 and 15 of the Illinois Compiled Statutes. The most important aspect of the statutes is the prudent expert rule, which establishes a standard of care for all fiduciaries. (A fiduciary is any person who has authority or control with respect to the management or administration of plan assets.) The prudent expert rule states that fiduciaries must discharge their duties with the care, skill, prudence and diligence that a prudent person acting in a like capacity and familiar with such matters would use under conditions prevailing at the time. The SURS Board of Trustees has adopted an Investment Policy that contains general policies for investments. The Investment Policy was updated in fiscal year 2021 to update the Investment Committee responsibilities, change the diversity brokerage goals, to includes a specific section for private credit investments, and to update benchmarks used to evaluate SURS option strategies. The Investment Procurement Policy was revised in January 2021 to not require live candidate interviews for investments under $50 million. The Investment Section of this report contains a summary of SURS policies. Within the prudent expert framework, the SURS Board of Trustees establishes specific investment guidelines in the investment management agreement of each individual investment management firm and monitors the firms accordingly.

Investment Commitments

Alternative investment portfolios consist of passive interests in limited partnerships. The System had outstanding commitments to private equity limited partnerships of approximately $1,305.5 million as of June 30, 2021. The System had outstanding commitments of approximately $290.6 million to real estate partnerships, approximately $92.1 million to infrastructure partnerships and approximately $45.9 million to farmland partnerships as of June 30, 2021.

Investments

The carrying values of investments by type at June 30, 2021, are summarized below:

EQUITY INVESTMENTS	
U.S. equities	$ 4,603,582,658
Non-U.S. equities	5,465,899,340
U.S. private equity	2,025,077,593
Non-U.S. private equity	624,733,864
U.S. equity derivatives	(1,971,274)
Non-U.S. equity derivatives	(2,396,044)
FIXED INCOME INVESTMENTS	
U.S. government obligations	2,485,487,876
U.S. agency obligations	926,464,059
U.S. corporate fixed income	1,659,971,910
U.S. fixed income, other	360,074,355
Non-U.S. fixed income securities	847,889,169
U.S. short-term investments	316,579,450
Non-U.S. short-term investments	(169,739,463)
U.S. fixed income derivatives	(17,013,086)
Non-U.S. fixed income derivatives	27,043,859
REAL ESTATE INVESTMENTS	
U.S. real estate	1,384,385,385
Non-U.S. real estate	177,014,598
DIVERSIFYING STRATEGY INVESTMENTS	
Diversifying strategy funds	1,576,899,596
TOTAL INVESTMENTS	$ 22,289,983,845

(a) Fixed income investments presented in this table include $77,498,852 of short-term investments with maturities of less than 90 days, which are included in the cash and short-term investments total on the financial statements.

(b) U.S. short-term investments principally consist of money market funds and options.

(c) Fixed income investments presented in this table include no short-term investments with maturities greater than 90 days.

(d) Fixed income investments presented in this table include commingled funds, derivatives, cash, and cash equivalent holdings.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. SURS has adopted a formal policy specific to custodial credit risk. To minimize custodial credit risk, SURS performs due diligence on service providers, provides investment parameters for investment vehicles, monitors the financial condition of the custodian, endeavors to have all investments held in custodial accounts through specific sources, and requires the custodian to meet certain requirements. At June 30, 2021, no investments were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the System's name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of the System's investment in a single issue. SURS has not adopted a formal policy specific to concentration of credit risk. However, this area is addressed with each of the relevant investment managers in the investment management agreement between the parties. The System's investment portfolios are managed by professional investment management firms. These firms must maintain diversified portfolios and must comply with risk management guidelines specific to each of their investment management agreements. Excluding U.S. government and agency issues, the portfolios are limited to a 5% allocation in any single investment grade U.S. issuer. Allocation limits also apply to international issuers. At June 30, 2021, SURS had no investments in any one issuer that represented 5% or more of the System's total investments.

Credit Risk of Debt Securities

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill obligations. SURS has not adopted a formal policy specific to credit risk of debt securities. However, this area is addressed with each of the relevant investment managers in the investment management agreement between the parties. The quality ratings of investments in fixed income securities of the System as described by Standard & Poor's rating agency at June 30, 2021, are presented on the next page:

Quality Rating: Standard & Poor's	Domestic	International	Total
AAA	$ 91,054,904	$ 16,692,144	$ 107,747,048
AA+	909,882,663	3,763,567	913,646,230
AA	27,023,931	4,442,457	31,466,388
AA-	45,568,861	2,750,356	48,319,217
A+	18,306,409	8,989,327	27,295,736
A	37,233,848	13,197,560	50,431,408
A-	45,870,399	37,694,765	83,565,164
BBB+	98,740,974	62,437,130	161,178,104
BBB	106,899,277	104,926,611	211,825,888
BBB-	199,300,104	108,634,040	307,934,144
BB+	92,495,331	73,808,139	166,303,470
BB	100,548,421	53,376,144	153,924,565
BB-	134,364,726	102,373,281	236,738,007
B+	115,306,317	59,286,295	174,592,612
B	131,193,162	86,296,971	217,490,133
B-	82,481,181	39,908,181	122,389,362
CCC+	58,395,877	32,871,137	91,267,014
CCC	23,311,866	4,538,384	27,850,250
CCC-	1,371,070	3,720,233	5,091,303
CC	8,084,749	313,339	8,398,088
D	1,997,606	1,460,009	3,457,615
Not Rated *	42,803,076	26,409,290	69,212,366
Total credit risk: debt securities	$ 2,372,234,752	$ 847,889,360	$ 3,220,124,112
U.S. government & agencies **	2,615,804,945	-	2,615,804,945
TOTAL DEBT SECURITIES INVESTMENTS	**$ 4,988,039,697**	**$ 847,889,360**	**$ 5,835,929,057**

* The credit risk by quality ratings does not include commingled funds, derivatives, cash, and cash equivalent holdings for which there is no quality rating.

** Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government agencies Federal Housing Administration (FHA), Government National Mortgage Association (GNMA), and Small Business Administration (SBA) are not considered to have credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The System manages its exposure to fair value loss arising from increasing interest rates by diversifying the debt securities portfolio. The System has not adopted a formal policy specific to interest rate risk. However, this area is addressed with each of the relevant investment managers in the investment management agreement between the parties.

At June 30, 2021, the segmented time distribution of the various types of debt securities of the System are as follows:

		Maturities in Years				
Type	**2021 Fair Value**	**Less than 1 year**	**1 to 5 years**	**5 to 10 years**	**10 to 20 years**	**More than 20 years**
U.S. government & agency fixed income	$ 3,489,450,597	$ 109,053,170	$ 1,130,473,287	$ 460,675,888	$ 736,452,050	$ 1,052,796,202
U.S. corporate fixed income	1,498,589,100	4,917,805	583,297,572	561,044,177	151,155,916	198,173,630
Non-U.S. fixed income	847,889,360	17,746,958	393,905,726	241,687,393	69,750,241	124,799,042
TOTAL *	**$ 5,835,929,057**	**$ 131,717,933**	**$ 2,107,676,585**	**$ 1,263,407,458**	**$ 957,358,207**	**$ 1,375,768,874**

* The segmented time distribution of debt securities does not include commingled funds, derivatives, cash, and cash equivalent holdings for which there is no maturity date.

Foreign Currency Risk
Foreign currency risk is the risk that changes in currency exchange rates will adversely affect the fair value of an investment or a deposit. SURS has not adopted a formal policy specific to foreign currency risk. However, this area is addressed with each of the relevant investment managers in the investment management agreement between the parties. International investment management firms maintain portfolios with diversified foreign currency risk for SURS. The System's exposure to foreign currency risk derives from its positions in foreign currency and foreign currency-denominated equity and fixed income investments.

At June 30, 2021, the System's exposure to foreign currency risk is as follows:

Currency	Equity	Fixed Income *	Total
Argentine peso	$ -	$ 323	$ 323
Australian dollar	47,213,601	12,867,758	60,081,359
Brazilian real	26,022,122	1,222,103	27,244,225
British pound sterling	292,504,996	27,637,499	320,142,495
Canadian dollar	62,162,024	(10,810,766)	51,351,258
Chinese yuan renminbi	-	(3,256,281)	(3,256,281)
Czech koruna	-	(753,619)	(753,619)
Danish krone	35,077,718	4,642	35,082,360
Egyptian pount	2,893,008	-	2,893,008
Euro	679,669,991	51,598,717	731,268,708
Hong Kong dollar	74,392,053	2,351,314	76,743,367
Hungarian forint	4,143,620	2,512,239	6,655,859
Indian rupee	-	652,297	652,297
Indonesian rupiah	1,415,924	-	1,415,924
Japanese yen	348,199,795	63,422,927	411,622,722
Mexican peso	6,312,507	2,811,559	9,124,066
New Israeli shekel	525,117	143,963	669,080
New Taiwan dollar	40,505,250	6	40,505,256
New Zealand dollar	1,834,821	(7,720,104)	(5,885,283)
Norwegian krone	1,400,438	18,205,225	19,605,663
Peruvian nuevo sol	-	(13,318)	(13,318)
Philippine peso	1,592,609	-	1,592,609
Polish zloty	3,491,680	(85,597)	3,406,083
Russian ruble	-	5,438,760	5,438,760
Singapore dollar	15,271,883	633,060	15,904,943
South African rand	12,628,240	(772,979)	11,855,261
South Korean won	25,602,204	(878)	25,601,326
Swedish krona	49,289,507	(8,932,382)	40,357,125
Swiss franc	83,943,284	(50,883,586)	33,059,698
Thai baht	3,074,231	26	3,074,257
Turkish lira	-	2,416	2,416
Total securities subject to foreign currency risk	$ 1,819,166,623	$ 106,275,324	$ 1,925,441,947
Foreign investments denominated in U.S. dollars	4,671,988,929	598,918,241	5,270,907,170
TOTAL FOREIGN INVESTMENT SECURITIES	**$ 6,491,155,552**	**$ 705,193,565**	**$ 7,196,349,117**

* Includes Swaps, Options, and Short-Term Investments. These derivatives and pending transactions have resulted in negative totals for certain currencies.

Notes to the Financial Statements

Derivative Securities

The System invests in derivative securities through its investment managers. A derivative security is an investment whose value is derived from other financial instruments such as commodity prices, bond and stock prices, or a market index. The System's derivatives are considered investments. The fair value of all derivative financial instruments is reported in the Statement of Fiduciary Net Position, and the change in the fair value is recorded in the Statement of Changes in Fiduciary Net Position as net appreciation (depreciation) in fair value of investments.

In the case of an obligation to purchase (long a financial future or a call option), the full value of the obligation is held in cash or cash equivalents. For obligations to sell (short a financial future or a put option), the reference security is held in the portfolio. Derivative transactions involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Market risk is the possibility that a change in interest rate risk or foreign currency risk will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is regulated by imposing strict limits as to the types, amounts, and degree of risk that investment managers may undertake. These limits are approved by the Board of Trustees and senior management, and the risk positions of the investment managers are reviewed on a periodic basis to monitor compliance with the limits. The System has not adopted a formal policy specific to master netting arrangements. As of June 30, 2021, SURS derivative investments included foreign currency forward contracts, rights and warrants, futures, options, swaps, and swaptions. At June 30, 2021, SURS investments in derivatives had the following balances:

	Notional Value 2021	Fair Value 2021	Change in Fair Value
Forwards	$ -	$ 4,342,353	$ 8,444,774
Rights and Warrants	$ 310,565	$ 252,805	$ 226,458
Futures			
Equity			
Long	$ 99,688,976	$ (593,656)	$ (2,103,086)
Short	(43,578,281)	(1,973,891)	(1,981,492)
Fixed income			
Long	718,494,690	697,094	956,423
Short	(377,914,398)	(891,553)	(1,175,270)
Commodity			
Long	103,223,857	1,928,447	1,803,537
Short	(25,689,380)	(156,190)	53,578
Foreign exchange			
Long	72,239,513	(136,200)	(176,654)
Short	(159,584,233)	775,989	967,733
Total futures	$ 386,880,744	$ (349,960)	$ (1,655,231)
Options			
Equity			
Call	$ (341,054)	$ (1,716,055)	$ 2,533,924
Put	(340,254)	(2,904,069)	1,932,245
Swaptions			
Call	(86,183,461)	(19,211)	14,031
Put	(10,080,150)	(5,494)	10,979
Total options	$ (96,944,919)	$ (4,644,829)	$ 4,491,179
Swaps			
Credit default			
Selling protection	$ 168,759,620	$ 11,776,816	$ 11,746,465
Interest rate			
Pay fixed	134,940,000	(2,394,391)	8,208,297
Receive fixed	82,888,701	673,054	2,196,623
Total swaps	$ 386,588,321	$ 10,055,479	$ 22,151,385

Notes to the Financial Statements

Foreign currency forward contracts are used to protect against the currency risk in SURS foreign equity and fixed income security portfolios. A foreign currency forward contract is an agreement to buy or sell a specific amount of a foreign currency at a specified delivery or maturity date for an agreed-upon price. Fluctuations in the market value of foreign currency forward contracts are marked to market on a daily basis. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in the investment income in the Statement of Changes in Fiduciary Net Position. At June 30, 2021, SURS investments in foreign currency forward contracts are as follows:

Currency	Pending Foreign Exchange Purchases	Pending Foreign Exchange Sales	Fair Value 2021	Change in Fair Value
Australian dollar	$ -	$ -	$ -	$217,080
Brazilian real	279,781	(90,056)	189,725	319,128
British pound sterling	4,204	(60,875)	(56,671)	142,205
Canadian dollar	201,139	(8,154)	192,985	444,206
Chilean peso	-	-	-	(77,402)
Czech koruna	40,687	(277)	40,410	172,783
Euro	-	(185)	(185)	3,570,689
Hong Kong dollar	-	-	-	3
Hungarian forint	36,638	-	36,638	36,638
Japanese yen	28,315	-	28,315	(54,246)
Korean Republic won	-	-	-	5,745
Mexican peso	83,307	(3,776)	79,531	(132,869)
New Zealand dollar	-	-	-	739,132
Norwegian krone	8,114	-	8,114	(249,964)
Russian ruble (new)	345,177	(49,334)	295,843	295,843
Swedish krona	-	(5,184)	(5,184)	(905,330)
Swiss franc	-	-	-	29,006
Singapore dollar	6,390	-	6,390	6,390
South African rand	6,851	(2,307)	4,544	103,530
Turkish lira	-	-	-	62,055
Total securities subject to foreign currency risk	$ 1,040,603	$ (220,148)	$ 820,455	$ 4,724,622
Foreign investments denominated in U.S. dollars	8,106,766	(4,584,868)	3,521,898	3,720,152
Total foreign investment securities	**$ 9,147,369**	**$ (4,805,016)**	**$ 4,342,353**	**$ 8,444,774**

Rights and warrants provide SURS investment managers the right, but not the obligation, to purchase or sell a company's stock at a fixed price until a specified expiration date. Rights normally are issued with common stock and expire after two to four weeks. Warrants typically are issued together with a bond or preferred stock and may not expire for several years. The fair value of rights and warrants is included in the investments in the Statement of Fiduciary Net Position. The gain or loss from rights and warrants is included in the investment income in the Statement of Changes in Fiduciary Net Position.

SURS investment managers use financial futures to replicate an underlying security they wish to hold (sell) in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security (arbitrage). Additionally, SURS investment managers use futures contracts to improve the yield or adjust the duration of the fixed income portfolio. A financial futures contract is an agreement to buy or sell a specific amount at a specified delivery or maturity date for an agreed-upon price. Futures contracts are traded on organized exchanges, thereby minimizing the System's credit risk. The net change in the futures contracts value is settled daily in cash with the exchanges. The cash or securities to fulfill these obligations are held in the investment portfolio. As the market value of the futures contract varies from the original contract price, a gain or loss is paid to or received from the clearinghouse and recognized in the Statement of Changes in Fiduciary Net Position.

Notes to the Financial Statements

SURS investment managers use options in an attempt to add value to the portfolio (collect premiums) or protect (hedge) a position in the portfolio. Financial options are an agreement that gives one party the right, but not the obligation, to buy or sell a specific amount of an asset for a specified price, called the strike price, on or before a specified expiration date. As a writer of financial options, the System receives a premium at the outset of the agreement and bears the risk of an unfavorable change in the price of the financial instrument underlying the option. All written financial options are recognized as a liability on the System's financial statements. As a purchaser of financial options, the System pays a premium at the outset of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option.

SURS fixed income managers invest in swaps and swaptions to manage exposure to credit, inflation, interest rate, and volatility risks. Swaptions are options on swaps that give the purchaser the right, but not the obligation, to enter into a swap at a specific date in the future. Swap agreements are privately negotiated agreements with a counterparty to exchange or swap investment cash flows, assets, foreign currencies, or market-linked returns at specified, future intervals. In connection with swap agreements, securities or cash may be identified as collateral in accordance with the terms of the respective swap agreements to provide assets of value and recourse in the event of default, bankruptcy, or insolvency. Swaps are marked to market daily based upon values from third-party vendors or quotations from market makers to the extent available and any change in value is recorded as an unrealized gain or loss. SURS investment managers have entered into credit default, inflation-linked, and interest rate swap agreements.

Notes to the Financial Statements

Swaps and Credit Risk

	Counterparty Credit Rating	Notional Value 2021	Fair Value 2021	Fair Value 2020	Change in Fair Value
Swaps					
Credit default	No Rating	$ 168,759,620	$ 11,776,816	$ 30,351	$ 11,746,465
		168,759,620	11,776,816	30,351	11,746,465
Interest rate	No Rating	217,828,701	(1,721,337)	(12,126,257)	10,404,920
		217,828,701	(1,721,337)	(12,126,257)	10,404,920
		$ 386,588,321	**$ 10,055,479**	**$ (12,095,906)**	**$ 22,151,385**
Swaptions	A	$ (89,741,161)	$ (22,056)	$ (49,715)	$ 27,659
	BBB	(6,522,450)	(2,649)	-	(2,649)
		$ (96,263,611)	**$ (24,705)**	**$ (49,715)**	**$ 25,010**
Forwards	No Rating	**$ -**	**$ 4,342,353**	**$ (4,102,421)**	**$ 8,444,774**

Swaps and Maturities

	Maturities in Years					
	Less than 1 year	1 to 5 years	5 to 10 years	10 to 20 years	More than 20 years	Fair Value 2021
Swaps						
Credit default	$ 64,733	$ 11,712,083	$ -	$ -	$ -	$ 11,776,816
Interest rate	-	(740,033)	(981,304)	-	-	(1,721,337)
	$ 64,733	**$ 10,972,050**	**$ (981,304)**	**$ -**	**$ -**	**$ 10,055,479**
Swaptions	**$ (24,705)**	**$ -**	**$ -**	**$ -**	**$ -**	**$ (24,705)**
Forwards	**$ 4,342,353**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 4,342,353**

Credit default swap agreements involve one party making a stream of payments (the buyer of protection) to another party (the seller of protection) in exchange for the right to receive a specified return in the event of a default or other credit event for the referenced entity, obligation, or index. The seller of protection generally receives from the buyer of protection a fixed rate of income throughout the term of the swap, provided there is no credit event. The seller effectively adds leverage to its portfolio as it is subject to investment exposure on the notional amount of the swap.

Inflation-linked swap agreements involve a stream of fixed payments in exchange for variable payments linked to an inflation index. These swaps can protect against unfavorable changes in inflation expectations and are utilized to transfer inflation risk from one counterparty to another.

Interest rate swap agreements involve the exchange of a set of variable and fixed-rate interest payments linked to a referenced interest rate without an exchange of the underlying principal amount. These agreements are used to limit or manage exposure to fluctuations in interest rates or to obtain a marginally lower interest rate than would be available without the swap. Gains and losses on swaps are determined based on market values and are recorded in the Statement of Changes in Fiduciary Net Position.

Volatility swap agreements involve two parties taking opposite sides of the future volatility of an underlying instrument (e.g., an index, individual security, or exchange rate) without the influence of its price. Payoff is determined by the future realized volatility. At expiry the holder of the long position in a volatility swap receives (or owes) the difference between the realized volatility and the volatility strike that was agreed upon at contract initiation. Volatility swaps are often utilized to trade the spread between realized and implied volatility or to hedge the volatility exposure of other positions in a portfolio.

SURS Rate	Counterparty Rate	Gross Notional Value 2021	Fair Value 2021	Pay Fixed / Receive Fixed
0.25% to 1.75%	3 month U.S. dollar LIBOR[1]	$ 134,940,000	$ (2,394,391)	Pay Fixed
		$ 134,940,000	**$ (2,394,391)**	
3 month U.S. dollar LIBOR[1]	0.36%	$ 74,600,000	$ 672,982	Receive Fixed
1 day British pound SONIA[2]	0.50%	8,288,701	72	Receive Fixed
		$ 82,888,701	**$ 673,054**	

[1] London Interbank Offered Rate (LIBOR)
[2] Sterling Overnight Interbank Average Rate (SONIA)

Derivatives which are exchange-traded are not subject to credit risk. No derivatives held are subject to custodial credit risk. SURS maximum loss that would be recognized at June 30, 2021, if all of its derivatives counterparties failed to perform as contracted is $21.9 million. This maximum exposure is reduced by $2.6 million in collateral SURS holds from its counterparties, leaving net derivatives credit exposure of $19.3 million.

Securities Lending

SURS Board of Trustees policies permit the System to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. Deutsche Bank AG New York, the System's third-party agent lender in fiscal year 2021, lent securities in exchange for cash collateral at 102% for U.S. securities and 103% for foreign securities. Cash collateral received for lent securities is shown on the Statement of Fiduciary Net Position as both an asset (fair value of collateral) and liability (collateral owed to borrower after lent securities are returned). Lent securities are included in total investments on the Statement of Fiduciary Net Position. Types of lent securities include corporate bonds, government and agency bonds, domestic equities, and international equities. At year end, the System had no credit risk as a result of its securities lending program as the collateral received exceeded the fair value of the lent securities. The contract with the System's third-party agent lender requires it to indemnify the System if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the System for income distributions by the securities' issuers while the securities are out on loan. All securities loans can be terminated on demand by either the System or the borrower, although the average term of the loans was 17.63 days. Cash collateral is invested in the indemnified repurchase agreements, which at year end had a weighted average final maturity of 55.96 days, a weighted average reset of 17.60 days, and a fair value of $2,143.3 million.

Collateral as of June 30, 2021 ($ in millions)

Securities on loan as of June 30, 2021	$ 2,107.5
Fair value of cash collateral invested	$ 2,143.3
Fair value of collateral received	$ 2,142.7
Change in fair value*	$ 0.6

*Included in net appreciation in fair value of investments in Statement of Changes in Fiduciary Net Position.

Reverse Repurchase Agreements

SURS held $624,000 in reverse repurchase agreements on June 30, 2021. Investment guidelines permit certain portfolios to enter into reverse repurchase agreements, which are a sale of securities with a simultaneous agreement to repurchase the securities in the future at the same price plus a stated rate of interest. The market value of the securities underlying reverse repurchase agreements exceeds the cash received, providing the counterparty a margin against a decline in market value of the securities. If the counterparty defaults on their obligations to sell these securities back to SURS or provide cash of equal value, SURS could suffer an economic loss equal to the difference between the market value of the underlying securities plus accrued interest and the agreement obligation including accrued interest. As of June 30, 2021, there was zero credit exposure.

SURS may enter into reverse repurchase agreements with various counterparties and such transactions are governed by Master Repurchase Agreements (MRA). MRAs are negotiated contracts and contain terms in which SURS seeks to minimize counterparty credit risk. SURS also controls credit exposures by limiting trades with any one counterparty to stipulated amounts. The counterparty credit exposure is monitored daily and managed through the transfer of margin, in the form of cash or securities, between SURS and the counterparty.

The cash proceeds from reverse repurchase agreements are reinvested. The maturities of the purchases made with the proceeds of reverse repurchase agreements are not necessarily matched to the maturities of the agreements. The counterparty earned a variable yield that as of June 30, 2021, was -1.00%. The reverse repurchase agreements had open maturities, whereby a maturity date is not established upon entering into the agreement; however, interest rates on the agreements are negotiated daily. The agreements can be terminated at the will of either SURS or the counterparty.

Notes to the Financial Statements

V. Net Pension Liability

The net pension liability for the defined benefit pension plan as of June 30, 2021, is as follows:

Employer Net Pension Liability ($ in millions)

	Total Pension Liability	Fiduciary Net Position	Net Pension Liability	Fiduciary Net Position as a % of Total Pension Liability
2021	$ 52,296.8	$ 23,768.3	$ 28,528.5	45.45%

The net pension liability represents the defined benefit pension plan's total pension liability determined in accordance with GASB Statement No. 67, less the plan's fiduciary net position. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The last experience study was completed in June 2021. The total pension liability as of June 30, 2021, is based on the results of an actuarial valuation date of June 30, 2020, and rolled forward using generally accepted actuarial procedures. A summary of the actuarial methods and assumptions used to determine the net pension liability are presented below:

Summary of Actuarial Assumptions

Actuarial valuation date	June 30, 2020
Actuarial cost method	Individual entry age
Actuarial assumptions	
Single discount rate	6.12%
Expected rate of return	6.5%
Municipal bond rate	1.92% (based on fixed-income municipal bonds reported in Fidelity *20-Year Municipal GO AA Index* as of June 30, 2021)
Inflation	2.25%
Projected salary increases	3.25% to 12.25% including inflation
Post-retirement cost of living adjustments	3.0%
Mortality table	Rates based on Pub-2010 Healthy Retiree Mortality tables and the most recent MP-2020 projection scale. Teachers table was used for Academic members and General Employees table was used for Non-Academic members.

Single Discount Rate

A single discount rate of 6.12% was used to measure the total pension liability as of June 30, 2021. This single discount rate was based on an expected return on pension plan investments of 6.5% and a municipal bond rate of 1.92%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the statutory contribution rates and the member rate. Estimated contributions, of which the majority (approximately 97% in 2022) are provided by the State of Illinois, are projected to be $2.1 billion in 2022 and growing to $3.4 billion in 2045 based on current statutory requirements for current members. Based on these assumptions, the defined benefit pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2075. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2075, and the municipal bond rate was applied to all benefit payments after that date.

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the net pension liability calculated using a single discount rate of 6.12%, as well as impact on the net pension liability of increasing the single discount rate by 1% and decreasing the single discount rate by 1%.

Sensitivity of Net Pension Liability to the Single Discount Rate Assumption as of June 30, 2021
($ in millions)

	1% Decrease 5.12%	Current Discount Rate 6.12%	1% Increase 7.12%
Net Pension Liability	$ 35,000.7	$ 28,528.5	$ 23,155.1

Long-Term Expected Rate of Return

The asset allocation of SURS investment portfolio is approved by the Board of Trustees in accordance with SURS Investment Policy. Investment assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully-funded status for the benefits provided through the defined benefit pension plan. The table displayed below is the Board-approved asset allocation policy for fiscal year 2021 and the long-term expected real rates of return. The long-term expected rate of return on investment assets was determined using a building-block method in accordance with the Actuarial Standards of Practices (ASOP) 27 Section 3.6.2(a) in which best estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

	Strategic Policy Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Traditional Growth		
Global Public Equity	41.0%	6.30%
Stabilized Growth		
Credit Fixed Income	14.0	1.82
Core Real Assets	5.0	3.92
Options Strategies	6.0	4.20
Non-Traditional Growth		
Private Equity	7.5	10.45
Non-Core Real Assets	2.5	8.83
Inflation Sensitive		
U.S. TIPS	6.0	(0.22)
Principal Protection		
Core Fixed Income	8.0	(0.81)
Crisis Risk Offset		
Systematic Trend Following	3.5	3.45
Alternative Risk Premia	3.0	2.30
Long Duration	3.5	0.91
Total	**100.0%**	**4.43%**
Inflation		**2.25**
Expected arithmetic return*		**6.68%**

*The geometric expected rate of return includes volatility and correlation estimates, while the expected arithmetic return does not.

For the year ended June 30, 2021, the annual money-weighted rate of return on investments, net of fees, was 23.8%. The money weighted rate of return expresses investment performance, net of fees, adjusted for the changing amounts actually invested.

Notes to the Financial Statements

VI. Capital Assets

Capital assets activity for the year ended June 30, 2021, was as follows:

	Beginning Balance	Additions/ Transfers in	Disposals/ Transfers out	Ending Balance
Land and improvements	$ 535,460	$ 109,594	$ -	$ 645,054
Office building	12,190,143	969,682	-	13,159,825
Information system equipment and software	16,684,215	468,603	78,860	17,073,958
Furniture and fixtures	1,055,236	141,531	40,944	1,155,823
Constuction in progress	431,802	1,488,673	1,562,550	357,925
Total capital assets	$ 30,896,856	$ 3,178,083	$ 1,682,354	$ 32,392,585
Less accumulated depreciation:				
Land and improvements	3,401	5,721	-	9,122
Office building	4,615,165	443,295	-	5,058,460
Information system equipment and software	15,151,554	349,134	29,494	15,471,194
Furniture and fixtures	738,312	64,126	40,944	761,494
Total accumulated depreciation	20,508,432	862,276	70,438	21,300,270
Capital assets, net	**$ 10,388,424**	**$ 2,315,807**	**$ 1,611,916**	**$ 11,092,315**

The average estimated useful lives for depreciable capital assets are as follows:

Office building	40 years	Information systems equipment	5 years
Information systems software	10 years	Furniture and fixtures	7 years

VII. Compensated Absences

The System is obligated to pay employees at termination for unused vacation and sick time. The maximum time for which any individual may be paid is two times the annual earnable hours of vacation, and one-half of unused sick time earned between January 1, 1984, and December 31, 1997. No sick time earned after December 31, 1997, will be compensable at termination.

At June 30, 2021, the System had a liability of $1,628,841 for compensated absences, based upon the vesting method used for calculation of sick leave payable. The liability is included in the administrative expenses payable on the Statement of Fiduciary Net Position, and the annual increase or decrease in liability is reflected in the financial statements as an increase or decrease in salary expense.

Compensated absences payable for the year ended June 30, 2021, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Estimate Amount Due Within One Year
Compensated absences payable	$ 1,350,131	$ 1,133,686	$ 854,976	$ 1,628,841	$ 43,844

Notes to the Financial Statements

VIII. Insurance Coverage

The System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The employee health claims are administered through the State of Illinois. The System has minimized the risk of loss through private insurance carriers for commercial, business owners, and automobile policies. The deductible for this insurance coverage ranges from $100 to $50,000 per occurrence. There has been no significant reduction of insurance coverage from the prior year. The System has not had any insurance claims filed or paid in the past five fiscal years.

IX. Post-Employment Benefits

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Central Management Services (CMS). Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State-sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute toward health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the System do not contribute toward health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State; therefore, those annuitants with 20 or more years of credited service do not have to contribute toward health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes $5,000.

The State pays the System's portion of employer costs for the benefits provided. The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the State in the Illinois Annual Comprehensive Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Central Management Services. A copy of the financial statements of the Department of Central Management Services may be obtained by writing CMS, Stratton Building, Room 715, 401 E. Spring St., Springfield, IL 62706.

X. Lease Agreements

The System leases office space in Naperville for its Northern Counseling Center. The commitment for this lease is $13,465 for fiscal year 2021 and fiscal year 2022. In addition, the System leases office space in Springfield for its legislative staff. The fiscal commitment for this lease is $7,200 for both fiscal years 2021 and 2022. In 2019, the System entered into a lease agreement in which a local company will lease a portion of the building purchased at 1801 Fox Drive, Champaign, IL. The income for 2021 was $132,429. This lease agreement was terminated in 2021.

Required Supplementary Information

Schedule of Changes in Employer Net Pension Liability and Related Ratios
Defined Benefit Pension Plan

	2021	2020
TOTAL PENSION LIABILITY		
Service cost	$ 657,103,880	$ 634,453,468
Interest on net pension liability	3,190,005,705	3,123,586,563
Changes in benefit terms	2,341,698	-
Differences between expected and actual experience	109,919,610	167,491,408
Changes in assumptions	960,402,037	618,763,571
Benefit payments	(2,780,374,481)	(2,676,192,703)
Refunds of member accounts	(79,128,037)	(69,001,514)
Net change in pension liability	2,060,270,412	1,799,100,793
Total pension liability - beginning	50,236,519,927	48,437,419,134
Total pension liability - ending	**$ 52,296,790,339**	**$ 50,236,519,927**
FIDUCIARY NET POSITION		
Member contributions	$ 288,476,321	$ 282,367,290
Employer contributions	57,001,310	52,968,295
Non-employer contributing entity contributions	1,921,742,123	1,785,817,785
Net investment income	4,762,969,585	542,177,767
Benefit payments	(2,780,374,481)	(2,676,192,703)
Refunds of member accounts	(79,128,037)	(69,001,514)
Non-investment administrative expenses	(19,389,167)	(18,469,275)
Net change in fiduciary net position	4,151,297,654	(100,332,355)
Fiduciary net position - beginning	19,617,015,606	19,717,347,961
Fiduciary net position - ending	**$ 23,768,313,260**	**$ 19,617,015,606**
Net pension liability - ending	**$ 28,528,477,079**	**$ 30,619,504,321**

Schedule of Net Pension Liability ($ in millions)
Defined Benefit Pension Plan

Fiscal Year	Total Pension Liability	Fiduciary Net Position	Net Pension Liability	Fiduciary Net Position as a % of Total Pension Liability	Covered Payroll	Net Pension Liability as a % of Covered Payroll
2014	$ 39,182.3	$ 17,391.3	$ 21,791.0	44.39%	$ 3,522.2	618.67%
2015	41,219.3	17,463.0	23,756.3	42.37	3,606.5	658.71
2016	42,970.9	17,005.6	25,965.3	39.57	3,513.1	739.10
2017	43,965.9	18,484.8	25,481.1	42.04	3,458.3	736.81
2018	46,815.6	19,321.1	27,494.5	41.27	3,470.2	792.30
2019	48,437.4	19,717.3	28,720.1	40.71	3,506.7	819.02
2020	50,236.5	19,617.0	30,619.5	39.05	3,642.6	840.59
2021	52,296.8	23,768.3	28,528.5	45.45	3,638.2	784.13

Note: The System implemented GASB Statement No. 67 in fiscal year 2014. The information above is presented for as many years as available. The schedule is intended to show information for 10 years. The System implemented GASB Statement No. 84 in fiscal year 2021. Fiscal year 2020 and 2021 reflect the change, while prior years are still shown as previously presented.

Required Supplementary Information

Schedule of Investment Returns

Annual money-weighted rate of return, net of investment fees.

2014	18.15%
2015	2.84
2016	0.12
2017	12.15
2018	8.29
2019	6.07
2020	2.64
2021	23.83

Note: The System implemented GASB Statement No. 67 in fiscal year 2014. The information above is presented for as many years as available. The schedule is intended to show information for 10 years.

Schedule of Contributions from Employers and Other Contributing Entities ($ in thousands) Defined Benefit Pension Plan

		Actual Contribution				
Fiscal Year	Actuarially Determined Contribution	Employers	Other Contributing Entities	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2012	$ 1,443,348	$ 45,596	$ 940,219	$ 457,533	$ 3,477,166	28.35%
2013	1,549,287	41,874	1,359,607	147,806	3,533,858	39.66
2014	1,560,524	43,899	1,458,965	57,660	3,522,246	42.67
2015	1,622,656	39,934	1,488,591	94,131	3,606,537	42.38
2016	1,811,060	39,348	1,542,946	228,766	3,513,108	45.04
2017	1,864,843	38,386	1,612,165	214,292	3,458,320	47.73
2018	1,862,033	39,659	1,568,221	254,153	3,470,226	46.33
2019	2,239,366	49,415	1,592,639	597,312	3,506,650	46.83
2020	2,299,031	52,968	1,785,818	460,245	3,642,617	50.48
2021	2,303,266	57,001	1,921,742	324,523	3,638,244	54.39

Notes to the Required Supplementary Information

Schedule of Changes in Net Pension Liability

The covered employee payroll is equal to the defined benefit pension plan payroll from the June 30, 2020 valuation rolled forward with one year of wage inflation at 3.0%. The beginning of the year total pension liability uses a single discount rate of 6.49% and the end of the year total pension liability uses a single discount rate of 6.12%. The difference between the actual and expected experience includes the impact of this change in the single discount rate based on the long-term municipal bond rate of 2.45% as of June 30, 2020, and 1.92% as of June 30, 2021.

Actuarial Assumptions and Methods Used in Determining Fiscal Year 2021 Contributions

Valuation Date	June 30, 2019
Valuation Method	Projected unit credit
Amortization Method	The statutory contribution is equal to the level percentage of pay contributions determined so that the Plan attains a 90% funded ratio by the end of 2045.
Remaining Amortization Period	25 years remaining for fiscal year 2020
Asset Valuation Method	5 year smoothed market
Inflation	2.25%
Salary Increases	3.25% to 12.25% including inflation
Investment Rate of Return	6.75% beginning with the actuarial valuation as of June 30, 2018.
Real Rate of Return	4.5%
Retirement Age	Experience-based table of rates. Last updated for the 2018 valuation pursuant to an experience study of the period 2014–2017.
Mortality	Rates based on Pub-2010 Healthy Retiree Mortality tables and the most recent MP-2020 projection scale. Teachers table was used for Academic members and General Employees table was used for Non-Academic members.
Other Notes	None

Other Supplementary Information

Summary Schedule of Administrative Expenses
For the Years Ended June 30, 2021, and 2020

	2021	2020
Personnel services		
Salary and wages	$ 11,132,563	$ 9,859,170
Retirement contributions	1,264,008	1,178,301
Insurance and payroll taxes	3,591,468	2,664,195
	15,988,039	13,701,666
Professional services		
Computer services	2,051,270	1,826,155
Medical consultation	204	4,126
Technical and actuarial	1,098,138	1,055,448
Legal services	581,363	288,490
	3,730,975	3,174,219
Communications		
Postage	137,232	159,132
Printing and copying	29,555	54,083
Telephone	290,801	194,016
	457,588	407,231
Other services		
Equipment repairs, rental, and maintenance	96,142	88,380
Building operations, maintenance, office rental	159,001	265,350
Surety bonds and insurance	491,469	470,152
Memberships and subscriptions	52,727	86,496
Transportation, travel, and conferences	8,053	89,722
Education	58,150	39,431
EDP supplies and equipment	42,786	98,094
Office supplies	19,653	43,550
	927,981	1,181,175
Depreciation and amortization	862,276	770,022
Total administrative expenses	**$ 21,966,859**	**$ 19,234,313**

Other Supplementary Information

Summary Schedule of Consultant Payments
For the Years Ended June 30, 2021, and 2020

	2021	2020
Technical and actuarial services		
Aatrix Software	$ 855	$ -
Accurate Employment Screening, LLC	3,728	-
Advanced Audio and Lighting	5,840	-
Altec Products, Inc	4,176	4,176
The Berwyn Group	4,200	5,040
Cammack LaRhette Advisors	107,500	157,500
CapFinancial Partners, LLC	37,500	-
CareerBuilder, LLC	-	5,995
Chris Brown Photography	-	2,750
Economic Research Institute	-	6,989
Election-America	37,024	-
Federal Companies	-	11,019
Fidelity	14,896	75
Gabriel, Roeder, Smith & Company	252,719	185,939
Glass Lewis & Co, LLC	-	113,400
Greenwood/Asher & Associates	-	53,204
Ice Miller, LLP	-	44,789
Info-Tech Research Group	61,500	-
Insurance Audit & Inspection	25,000	12,152
LatPro, Inc	6,000	-
LexisNexis	1,800	2,218
LinkedIn Corporation	10,775	10,500
Mayer Brown LLP	-	58,191
McLean & Co	30,404	13,718
Miscellaneous	10,123	3,118
Open position advertising/ Recruitment	5,249	-
Principal Review	15,000	-
Propio Language Services, LLC	760	563
Quality Training Solutions, LLC	-	15,800
Reed Group	1,360	1,360
Segal Waters Consulting	-	26,250
Sikich LLP	42,624	41,788
Surface 51	19,800	18,975
SurveyMonkey Inc.	744	360
Teachers' Retirement System	-	5,692
The Northern Trust Company	75,440	71,376
Vimeo	240	240
Voya	273,515	102,771
World Technologies, Inc	-	19,500
Zahn Governmental Solutions, LLC	-	60,000
Zones LLC	49,366	-
	$ 1,098,138	**$ 1,055,448**
Legal services		
Area Wide Reporting Service	1,784	1,389
Featherstun, Gaumer, et al.	13,154	21,636
Foley & Lardner LLP	300,931	92,853
Groom Law Group	-	5,588
Ice Miller, LLP	125,364	49,291
K & L Gates LLP	22,833	3,178
Mayer Brown LLP	28,124	4,895
Meyer Capel	1,386	891
Miscellaneous	20	1,031
Morgan, Lewis & Bockius LLP	63,822	19,538
Ottosen Dinolfo	22,395	2,950
Reinhart Boemer Van Deuren	-	71,933
Tummelson, Bryan & Knox, LLP	1,300	-
Whitt Law LLC	250	13,317
	$ 581,363	**$ 288,490**
TOTAL CONSULTANT PAYMENTS	**$ 1,679,501**	**$ 1,343,938**

Other Supplementary Information

Summary Schedule of Investment Fees and Administrative Expenses
For the Years Ended June 30, 2021, and 2020

	2021	2020
INVESTMENT MANAGER		
Adams Street Partners	$ 5,182,820	$ 6,338,526
Aksia TorreyCove Partners	786,250	572,917
Alinda Capital Partners	84,385	117,227
AQR Capital Management	263,145	722,613
Ariel Investments	697,160	-
Aspect Capital	1,009,828	367,890
Ativo Capital Management	743,499	762,789
Basis Investment Group	447,534	451,234
Bivium Capital Partners	1,978,970	443,081
BlackRock	9,482,913	1,447,923
Blackstone Group	3,222,138	1,584,065
Blue Vista Capital Management	426,745	464,827
Brookfield Asset Management	856,117	941,147
Cabot Properties	673,387	-
Campbell & Company	887,818	271,242
Carlyle Property Partners	973,456	956,202
CastleArk Management	-	363,171
Channing Capital Management	572,867	465,232
Colchester Global Investors	761,531	734,302
Credit Suisse Asset Management	471,204	105,139
Crow Holdings Realty Partners	460,998	589,784
Denali Advisors	-	232,140
Dune Real Estate Partners	1,728,077	2,068,218
EARNEST Partners	1,104,242	1,473,724
Fairview Capital Partners	377,418	375,000
Fidelity Institutional Asset Management	-	369,511
Franklin Templeton Real Estate Advisors	475,366	442,583
Garcia Hamilton & Associates	515,408	500,968
Gladius Capital Management	1,096,169	1,351,470
GlobeFlex Capital	647,236	987,423
GQG Partners	954,879	-
Heitman Capital Management	1,620,983	1,641,575
Homestead Capital	1,735,338	-
Invesco	-	477,882
J.P. Morgan Asset Management	1,962,319	1,977,271
KKR Prisma	-	88,829
LM Capital Group	452,352	417,886
Lombard Odier Asset Management	750,309	242,920
Long Wharf Capital	598,765	643,974
Longpoint Realty Partners	610,822	-
LongTail Alpha	948,833	190,437
Macquarie Infrastructure Partners	1,250,975	1,448,825
Matarin Capital Management	440,557	610,750
Meketa Investment Group	208,669	-
Mesirow Financial Investment Management	1,207,918	838,743
Mondrian Investment Partners	1,153,185	1,395,156
Muller and Monroe Asset Management	650,000	821,196
Neuberger Berman	4,117,789	3,360,483
Northern Trust Asset Management	801,475	619,865

Other Supplementary Information

Summary Schedule of Investment Fees and Administrative Expenses (continued)
For the Years Ended June 30, 2021, and 2020

	2021	2020
Oaktree Capital Management	208,291	207,363
Pacific Alternative Asset Management Company	69,075	281,133
Pacific Investment Management Company	7,008,750	5,125,616
Pantheon Ventures	2,881,578	3,319,004
Parametric Clifton	295,240	384,390
Piedmont Investment Advisors	-	573,788
Progress Investment Management Company	-	2,002,484
Prologis	543,921	-
Prudential Fixed Income	1,190,628	1,339,683
Pugh Capital Management	450,571	415,677
Ramirez Asset Management	377,206	245,032
RhumbLine Advisers	238,471	189,704
Smith Graham & Company	-	25,999
State Street Global Advisors	-	12,410
StepStone Real Estate	176,440	207,487
Strategic Global Advisors	1,508,614	1,067,276
T. Rowe Price	2,723,181	3,378,284
TCW Metropolitan West Asset Management	-	135,719
UBS Realty Investors	565,202	427,255
Versor Investments	1,044,943	329,312
Wellington Management Company	4,015,924	3,230,093
Westbrook Partners	556,335	-
Xponance	2,351,160	753,326
Total management fees	81,597,379	63,927,175
MASTER TRUSTEE & CUSTODIAN		
The Northern Trust Company	1,075,000	1,075,000
INVESTMENT CONSULTANT, MEASUREMENT & COUNSEL		
Aksia TorreyCove Partners	81,464	277,846
Callan LLC	313,000	305,250
Faegre Drinker Biddle & Realth	46,419	25,427
Foley & Lardner LLP	372,885	-
Ice Miller LLP	55,239	141,743
K&L Gates LLP	81,423	56,280
Mayer Brown LLP	1,060	3,445
Meketa Investment Group	571,802	496,333
Morgan Lewis	675	33,395
Squire Patton Boggs	40,551	20,012
Teachers Retirement System of the State of Illinois	5,603	-
Total consultant, measurement & counsel fees	1,570,121	1,359,731
INVESTMENT ADMINISTRATIVE EXPENSES		
Personnel	1,645,324	1,472,597
Resources and travel	144,294	65,732
Performance measurement and database	130,669	66,955
Total administrative expenses	1,920,287	1,605,284
TOTAL INVESTMENT EXPENSES	**$86,162,787**	**$67,967,190**

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Honorable Frank J. Mautino
Auditor General
State of Illinois
and
The Board of Trustees
State Universities Retirement System of the State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the State Universities Retirement System of the State of Illinois (System), a component unit of the State of Illinois, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated December 13, 2021, which include an emphasis of matter paragraph regarding a change in accounting principles.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Internal Control Over Financial Reporting

Management of the System is responsible for establishing and maintaining effective internal control over financial reporting (internal control).

In planning and performing our audit of the financial statements, we considered the System's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

The Honorable Frank J. Mautino
and
Board of Trustees
State Universities Retirement System of the State of Illinois

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatement on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the System's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

Decatur, Illinois
December 13, 2021

State Universities Retirement System
of the State of Illinois

Schedule of Findings

Current Finding – *Government Auditing Standards*

June 30, 2021

None

State Universities Retirement System
of the State of Illinois
Prior Findings Not Repeated –*Government Auditing Standards*
June 30, 2021

None